

**ELECTRIC POWER BOARD OF THE  
METROPOLITAN GOVERNMENT OF  
NASHVILLE AND DAVIDSON COUNTY**

**FINANCIAL STATEMENTS FOR THE YEARS ENDED  
JUNE 30, 2014 AND 2013**

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY  
TABLE OF CONTENTS**

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	<b>Page</b>
SCHEDULE OF EXECUTIVE MANAGEMENT AND BOARD MEMBERS	1
INDEPENDENT AUDITOR'S REPORT	2 - 3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4 - 13
FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2014 AND 2013:	
Statements of Net Position	14 - 15
Statements of Revenues, Expenses and Changes in Net Position	16
Statements of Cash Flows	17 - 18
Notes to Financial Statements	19 - 38
SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2014	
Schedule of Insurance Coverage	40 - 41
Schedule of Utility Rates in Force	42 - 49
Schedule of Number of Customers	50
Schedule of Investments	51
Schedule of Long-Term Debt, Principal and Interest Sinking Fund Requirements by Fiscal Year	52 - 54
Schedule of Expenditures of Federal Awards	55 - 56
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	57-58
Schedule of Findings and Responses for the year ended June 30, 2013 (Updated)	59

## **schedule of executive management**



**Decosta Jenkins**  
NES President and  
Chief Executive Officer



**Teresa Broyles-Aplin**  
Executive Vice President  
and Chief Financial Officer

## **board members**



**Sam Howard**  
NES Board Chairman  
Chairman,  
Phoenix Holdings, Inc.



**Irma Paz-Bernstein**  
Owner,  
Las Paletas



**Robert Campbell, Jr.**  
Partner,  
Waller Lansden Dortch  
and Davis, LLP



**Robert McCabe**  
Chairman,  
Pinnacle Financial Partners



**Robert J. Mendes**  
Attorney,  
Frost Brown Todd, LLC



## **Independent Auditor's Report**

To the Electric Power Board of the Metropolitan  
Government of Nashville and Davidson County  
Nashville, Tennessee

We have audited the accompanying statement of net position of the Electric Power Board of the Metropolitan Government of Nashville and Davidson County (the "Electric Power Board"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Electric Power Board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Electric Power Board's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Electric Power Board as of June 30, 2014, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.



### ***Other Matters***

The financial statements of the Electric Power Board as of June 30, 2013 and for the year then ended were audited by other auditors whose report, dated October 31, 2013, expressed an unmodified opinion on those statements. The predecessor auditor's report included an Emphasis of Matter paragraph regarding the adoption of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and No. 65, *Items Previously Reported as Assets and Liabilities*; their opinion was not modified with respect to this matter. In addition, the predecessor auditor's report included an Other Matters paragraph to describe the nature of Required Supplementary Information included with the financial statements, as well as the nature of procedures performed over this information; they did not express an opinion or provide any assurance on the Required Supplementary Information.

### ***Required Supplementary Information***

The accompanying management's discussion and analysis on pages 4 through 13 is required by accounting principles generally accepted in the United States of America to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2014 on our consideration of the Electric Power Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Electric Power Board's internal control over financial reporting and compliance.

*PricewaterhouseCoopers LLP*

Nashville, Tennessee  
October 16, 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### *MANAGEMENT'S DISCUSSION AND ANALYSIS*

As financial management of the Electric Power Board of the Metropolitan Government of Nashville and Davidson County (the "Board"), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Board for the fiscal years ended June 30, 2014 and 2013 as compared to fiscal years 2013 and 2012, respectively. In conducting the operations of the electrical distribution system, the Board does business as Nashville Electric Service ("NES"). NES is a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee (the "Metropolitan Government"). This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. Certain reclassifications have been made to the fiscal year 2013 and 2012 amounts to conform to the fiscal year 2014 presentation. We encourage readers to consider the information presented here in conjunction with the financial statements taken as a whole.

#### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to NES' financial statements, which are comprised of the basic financial statements and the notes to the financial statements. Since NES is comprised of a single enterprise fund, no fund-level financial statements are shown.

#### **Basic Financial Statements**

The basic financial statements are designed to provide readers with a broad overview of NES' finances in a manner similar to that of a private-sector business.

The statements of net position present information on all of NES' assets and deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of NES is improving or deteriorating. Net position increases when revenues exceed expenses. Increases to assets without a corresponding increase to liabilities result in increased net position, which indicates an improved financial position.

The statements of revenues, expenses and changes in net position present information showing how NES' net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The statements of cash flows present changes in cash and cash equivalents resulting from operating, financing, and investing activities. These statements present cash receipts and cash disbursements information, without consideration as to the timing for the earnings event, when an obligation arises, or depreciation of capital assets.

#### **Summary of Changes in Net Position**

Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$661.2 million at June 30, 2014, and \$600.3 million at June 30, 2013. This represents an increase of \$60.9 million in 2014 and \$27.8 million in 2013.

## MANAGEMENT 'S DISCUSSION AND ANALYSIS (continued)

The largest portion of the Board's net position reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The Board uses these capital assets to provide service and consequently, these assets are not available to liquidate liabilities or for other spending.

An additional portion of the Board's net position represents resources that are subject to external restrictions on how they may be used. These restrictions include bond proceeds to be used for construction projects and reserve funds required by bond covenants.

### STATEMENTS OF NET POSITION (\$000 omitted)

	June 30,		
	2014	2013	2012
<b><u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u></b>			
<b>CURRENT ASSETS</b>	\$437,487	\$ 383,072	\$ 367,057
<b>INVESTMENT OF RESTRICTED FUNDS</b>	182,801	81,310	128,354
<b>UTILITY PLANT, NET</b>	902,930	890,320	865,013
<b>ENERGY CONSERVATION PROGRAMS' NOTES RECEIVABLE</b>	2,554	1,997	1,548
<b>OTHER NON-CURRENT ASSETS</b>	<u>250</u>	<u>268</u>	<u>288</u>
<b>TOTAL ASSETS</b>	<u>1,526,022</u>	<u>1,356,967</u>	<u>1,362,260</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	<u>9,831</u>	<u>11,195</u>	<u>9,018</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$1,535,853</u>	<u>\$1,368,162</u>	<u>\$1,371,278</u>

## MANAGEMENT 'S DISCUSSION AND ANALYSIS (continued)

### STATEMENTS OF NET POSITION (\$000 omitted) continued

	June 30,		
	2014	2013	2012
<b><u>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</u></b>			
<b>CURRENT LIABILITIES</b>	\$ 205,494	\$ 194,567	\$ 208,789
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS</b>	33,895	30,669	26,852
<b>LONG-TERM DEBT, LESS CURRENT PORTION</b>	622,309	529,115	558,058
<b>OTHER NON-CURRENT LIABILITIES</b>			
Payable to TVA – energy conservation programs	2,476	1,337	1,495
Contributions in aid of construction	10,518	12,220	3,585
	<u>12,994</u>	<u>13,557</u>	<u>5,080</u>
<b>TOTAL LIABILITIES</b>	<u>874,692</u>	<u>767,908</u>	<u>798,779</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	<u>-</u>	<u>-</u>	<u>37</u>
<b><u>NET POSITION</u></b>			
Net investment in capital assets	259,378	344,661	360,840
Restricted	62,979	54,735	55,435
Unrestricted	<u>338,804</u>	<u>200,858</u>	<u>156,187</u>
<b>TOTAL NET POSITION</b>	<u>661,161</u>	<u>600,254</u>	<u>572,462</u>
<b>TOTAL LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$1,535,853</u>	<u>\$1,368,162</u>	<u>\$1,371,278</u>

### Liquidity and Capital Resources

The Board has sufficient debt capacity and a strong financial position. Therefore, the tax-exempt bond market is expected to be a future source of liquidity to supplement the cash flow from operations. On June 25, 2014, the Board closed on the sale of the Metropolitan Government of Nashville and Davidson County, Tennessee, Electric System Revenue Bonds, 2014 Series A. The 2014 Series A Bonds were issued to finance the costs of acquisition, expansion, and improvements to the Electric System in accordance with the Board's capital improvement plan, to fund the Debt Service Reserve Account established under the Bond Resolution, and to pay costs of issuance of the bonds. The bonds have an aggregate principal amount of \$109.1 million, including both serial and term issuances. The 2014 Series A Bonds were issued at a premium totaling \$16.5 million. The serial bonds totaling \$88.0 million mature annually on May 15, 2015 through 2036. A term bond totaling \$21.1 million matures May 15, 2039. At June 30, 2014, the Board has \$117 million in proceeds from the 2014 Series A Bond issuance in cash and cash equivalents, and are reported as a component of Investment of Restricted Funds in the accompanying Statements of Net Position. During fiscal year 2014, NES drew no funds from the System Revenue Bonds, 2014 Series A, for capital expenditures.

## MANAGEMENT 'S DISCUSSION AND ANALYSIS (continued)

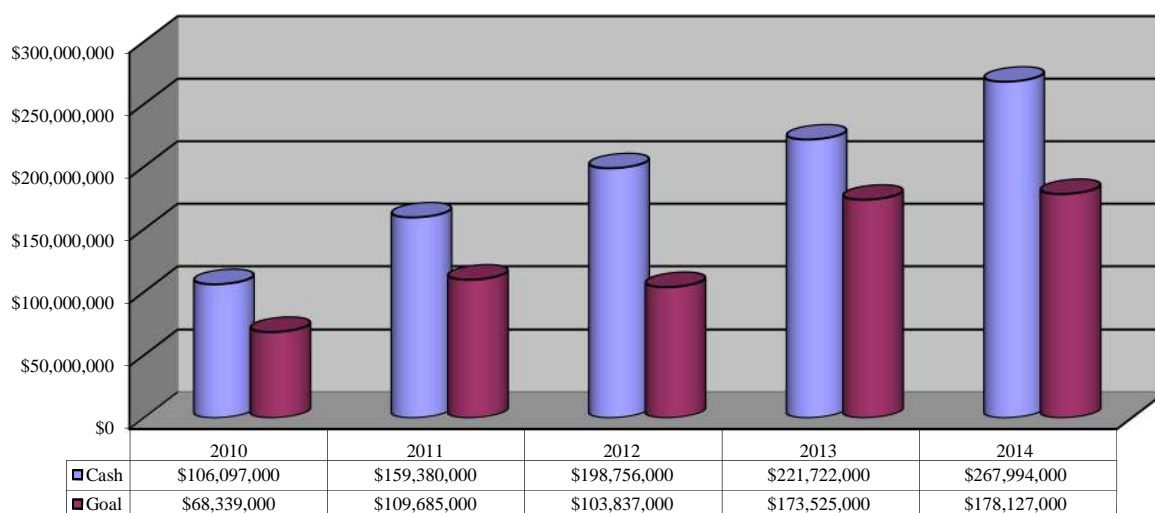
On June 27, 2013, the Board closed on the sale of the Metropolitan Government of Nashville and Davidson County, Tennessee, Electric System Refunding Bonds, 2013 Series A. The 2013 Series A Bonds were being offered to refund \$58.9 million aggregate principal amount of the outstanding 2004 Series A Bonds, maturing May 15, 2025, 2026, and 2029. During fiscal year 2013, NES drew down \$46.7 million in proceeds from the System Revenue Bonds, 2011 Series A, for capital expenditures.

In addition to operating cash flow and proceeds from tax-exempt bonds, the Board has a \$25 million line-of-credit, which is renewed each year. The credit facility is not a source of liquidity for ongoing operations. It is available as an additional funding source in the event of a natural catastrophe.

The Board's financing cost may be impacted by short-term and long-term debt ratings assigned by independent rating agencies. During the fiscal year ended June 30, 2014, the Board's revenue bonds were rated at AA+ by both Standard & Poor's and Fitch. In issuing bond ratings, agencies typically evaluate financial operations, rate-setting practices, and debt ratios. Higher ratings aid in securing favorable borrowing rates, which result in lower interest costs.

Debt ratings are based, in significant part, on the Board's performance as measured by certain credit measures. In order to maintain its strong credit ratings, the Board has adopted certain financial goals. Such goals provide a signal to the Board as to the adequacy of rates for funding ongoing cash flows from operations. One such goal is a cash goal of 16.5 percent of purchased power, and operating and maintenance expense. This goal was met every month of the fiscal year 2014. That percentage was 24.8 percent as of June 30, 2014, and 21.1 percent as of June 30, 2013. The Board also has a goal of maintaining a debt coverage ratio of at least 2 to 1. The Board's debt coverage ratio for the 12 months ended June 30, 2014, was 3.45 to 1. The Board continues to exceed its goals. The outlook on all debt ratings is stable as of June 30, 2014.

### Comparison of Cash Balances to NES' Goals



## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

### Operations Summary Revenue & Expense Data (\$000 omitted)

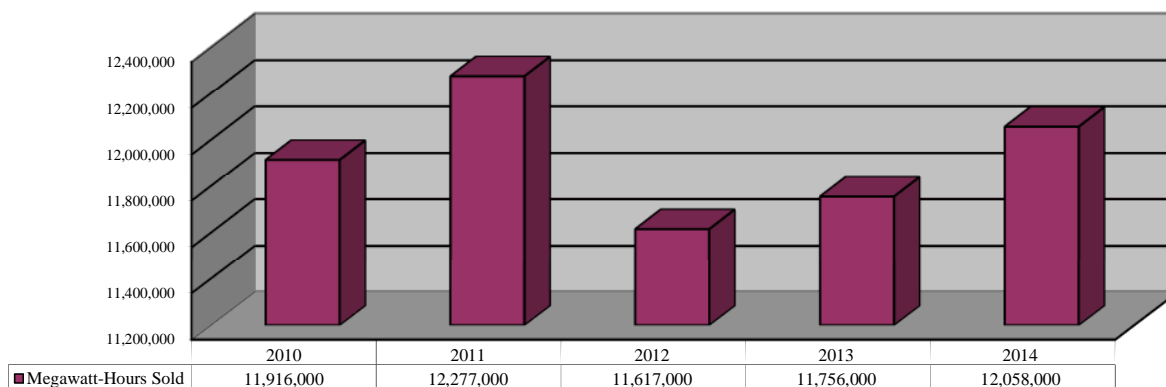
	Year Ended June 30,		Net Position	Year Ended	Net Position
	2014	2013	Effect	June 30, 2012	Effect
Operating revenues, net	\$1,241,434	\$1,174,424	\$67,010	\$1,154,512	\$ 19,912
Purchased power	<u>926,575</u>	<u>900,916</u>	<u>(25,659)</u>	<u>868,453</u>	<u>(32,463)</u>
Operating revenues, net less Purchased power	314,859	273,508	41,351	286,059	(12,551)
Operating expenses	150,264	150,749	(485)	141,289	(9,460)
Depreciation and Tax equivalents	81,747	71,695	(10,052)	77,904	6,209
Interest income	295	525	(230)	399	126
Interest expense, net	22,236	23,797	1,561	25,251	1,454
Extraordinary gain (loss)	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,010</u>	<u>(2,010)</u>
Increase in Net position	60,907	27,792	33,115	44,024	(16,232)
Effect of adoption of GASB 65	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,151</u>	<u>(1,151)</u>
Increase in Net position, as previously stated	<u>\$ 60,907</u>	<u>\$ 27,792</u>	<u>\$ 33,115</u>	<u>\$ 45,175</u>	<u>\$ (17,383)</u>

### 2014 and 2013 Results of Operations

*Operating Revenues, net.* Operating revenues, net increased by \$67.0 million, or 5.7 percent, when compared to 2013. Total electric sales were \$1.22 billion for the period versus \$1.15 billion last year. The average realized rate on electric sales was \$.1014 per kilowatt-hour in 2014 compared to \$.0981 per kilowatt-hour in 2013. The increase in average realized rate in 2014 is the result of a 3.8 percent increase in retail rates, effective October 1, 2013. Megawatt-hours sold in 2014 increased by 2.6 percent when compared to 2013. Weather plays an important part in determining revenue for any year. The impact of weather is reflected in the comparison of degree-days from one period to the next. Degree-days represent the difference between the weather's average daily temperatures minus 65 degrees. Temperatures above 65 degrees are considered cooling degree-days; temperatures below 65 degrees are considered heating degree-days. Total cooling degree-days were 1,820 compared to 1,808 in 2013. Total heating degree-days were 3,930 compared to 3,505 in 2013. Total heating and cooling degree-days were 5,750 in 2014 compared to 5,313 in 2013, or an increase of approximately 8.2 percent. Total average number of active year-to-date customers increased by 1.1 percent when compared to 2013. Revenue in excess of net bills (late charges) increased by \$0.3 million, and rentals of electric property (primarily pole attachments) decreased by \$0.1 million.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

**Megawatt-Hours Sold**



*Non-operating Revenues.* Interest income was \$0.3 million compared to \$0.5 million in 2013. The average rate of return on the General Fund was 0.09 percent in 2014 compared to 0.16 percent in 2013. The average monthly balance of the General Fund was \$219.6 million in 2014 compared to \$181.7 million in 2013, an increase of 20.9 percent. In addition, interest income from the bond reserve fund decreased by \$0.02 million over the previous year.

*Purchased Power and Operating Expenses.* The Board purchases all of its power from the Tennessee Valley Authority (“TVA”) under an all-requirements contract that had an initial term of 20 years. Beginning on December 19, 1989, and on each subsequent anniversary thereafter, the contract is automatically extended for an additional one-year period. The contract is subject to earlier termination by either party on not less than 10 years’ prior written notice. Purchased power was \$926.6 million for the period compared to \$900.9 million last year. The average realized rate on purchased power was \$.077 per kilowatt-hour in 2014 compared to \$.074 per kilowatt-hour in 2013. Megawatt-hours purchased were 12.5 million in 2014 compared to 12.1 million in 2013.

Distribution expenses for the period were \$61.9 million compared to \$59.3 million last year. This is an increase of \$2.6 million or 4.4 percent. The change is primarily attributable to an increase in the operation and maintenance of supervision and engineering, \$1.4 million; operation and maintenance of miscellaneous expense, \$0.7 million; load dispatching, \$0.6 million; operation and maintenance of station equipment, \$0.5 million; emergency services, \$0.2 million; operation and maintenance of meters, \$0.2 million; and operation and maintenance of underground lines, \$0.1 million; offset by decreases in operation and maintenance of street light and signal system, \$0.5 million; operation and maintenance of overhead lines, \$0.3 million; operation and maintenance of line transformers, \$0.2 million; and operation and maintenance of mapping, \$0.1 million.

Customer accounts expense and Customer service and information expenses combined were \$21.5 million for the period compared to \$23.7 million last year or a decrease of \$2.2 million or 9.3 percent. This is primarily the result of decreases in customer assistance, \$0.5 million.

## MANAGEMENT 'S DISCUSSION AND ANALYSIS (continued)

Administrative and general expenses were \$66.9 million for the period compared to \$67.8 million last year. This was a decrease of \$0.9 million or 1.3 percent. The decrease is primarily the result of decreases in employee health insurance, \$0.5 million; duplicate credit charges, \$0.3 million; miscellaneous general expenses, \$0.3 million; office supplies and expenses, \$0.3 million; injuries and damages, \$0.2 million; offset by increases in data processing, \$0.4 million; and administrative and general salaries, \$0.3 million.

Depreciation, and Tax equivalents were \$49.1 million and \$32.6 million, respectively, for 2014, compared to \$39.5 million and \$32.2 million, respectively, for 2013. The increase in depreciation was the result of fully depreciated assets in the prior year. Tax equivalents consist primarily of payments in-lieu-of taxes to the Metropolitan Government and the surrounding counties. Such payments are calculated based on a prescribed formula that takes into consideration utility plant value and the average of the Board's last three years' operating margin. The increase in payments in-lieu-of taxes was the result of increases in tax rates coupled with increased investment in the utility plant.

### 2013 and 2012 Results of Operations

*Operating Revenues, net.* Operating revenues, net increased by \$19.9 million, or 1.7 percent, when compared to 2012. Total electric sales were \$1.2 billion in 2013 versus \$1.1 billion in 2012. The average realized rate on electric sales was \$.0981 per kilowatt-hour in 2013 compared to \$.0976 per kilowatt-hour in 2012. The increase in average realized rate in 2013 is the impact of TVA rate adjustments for fuel costs and rate structure changes. Megawatt-hours sold in 2013 increased by 1.2 percent when compared to 2012. Weather plays an important part in determining revenue for any year. The impact of weather is reflected in the comparison of degree-days from one period to the next. Degree-days represent the difference between the weather's average daily temperatures minus 65 degrees. Temperatures above 65 degrees are considered cooling degree-days; temperatures below 65 degrees are considered heating degree-days. Total cooling degree-days were 1,808 compared to 1,999 in 2012. Total heating degree-days were 3,505 in 2013 compared to 2,812 in 2012. Total heating and cooling degree-days were 5,313 in 2013 compared to 4,811 in 2012 or an increase of approximately 10.4 percent. Total average number of active year-to-date customers increased by 1.0 percent in 2013 when compared to 2012. Revenue in excess of net bills (late charge) increased by \$0.1 million, and rentals of electric property (primarily pole attachments) increased by \$1.4 million.

*Non-operating Revenues.* Interest income was \$0.5 million in 2013 compared to \$0.4 million in 2012. The average rate of return on the General Fund was 0.16 percent in 2013 compared to 0.15 percent in 2012. The average monthly balance of the General Fund was \$181.7 million in 2013 compared to \$148.3 million in 2012, an increase of 22.5 percent. In addition, interest income from the bond reserve fund increased by \$67 thousand in 2013 over 2012.

*Purchased Power and Operating Expenses.* The Board purchases all of its power from TVA under an all-requirements contract that had an initial term of 20 years. Beginning on December 19, 1989, and on each subsequent anniversary thereafter, the contract is automatically extended for an additional one-year period. The contract is subject to earlier termination by either party on not less than 10 years' prior written notice. Purchased power was \$900.9 million in 2013 compared to \$868.5 million in 2012. The average realized rate on purchased power was \$.074 per kilowatt-hour in 2013 compared to \$.072 per kilowatt-hour in 2012. The increase was due to the pass-through of the fuel cost adjustment and because TVA adjusted purchased power in March 2012 in the amount of \$20.6 million due to over-billings by TVA at the Old Hickory hydro substation. Megawatt-hours purchased were 12.1 million in 2013 compared to 12.1 million in 2012.

## MANAGEMENT 'S DISCUSSION AND ANALYSIS (continued)

Distribution expenses for 2013 were \$59.3 million compared to \$49.2 million in 2012. This is an increase of \$10.1 million or 20.5 percent. The change is primarily attributable to an increase in storms, \$5.9 million; operation and maintenance of supervision and engineering, \$3.0 million; operation and maintenance of overhead lines, \$2.5 million; emergency service, \$0.6 million; operation and maintenance of meters, \$0.4 million; load dispatching, \$0.4 million; operation and maintenance of underground lines, \$0.3 million; operation and maintenance of station equipment, \$0.3 million; operation and maintenance of mapping, \$0.1 million; and rents, \$0.1 million, offset by decreases in tree-trimming expense, \$2.1 million; operation, maintenance, and miscellaneous expense, \$0.9 million; operation and maintenance of street light and signal system, \$0.4 million; and private lights, \$0.1 million.

Customer accounts expense and Customer service and information expenses combined were \$23.7 million in 2013 compared to \$25.1 million in 2012 or a decrease of \$1.4 million or 5.6 percent. This is primarily the result of a decrease in customer orders and services, \$0.6 million, offset by increases in meter reading, \$0.5 million; customer records and collections, \$0.4 million; supervision, \$0.2 million; data processing, \$0.2 million; and customer assistance, \$0.1 million.

Administrative and general expenses were \$67.8 million in 2013 compared to \$67.0 million in 2012. This was an increase of \$0.8 million or 1.1 percent. The increase is primarily the result of increases in employee pensions, \$1.5 million; office supplies and expenses, \$0.5 million; injuries and damages, \$0.4 million; data processing, \$0.4 million; and outside services employed, \$0.2 million, offset by decreases in employee health insurance, \$1.4 million; administrative and general salaries, \$0.6 million; maintenance of general plant, \$0.1 million; and miscellaneous general expense, \$0.1 million.

Depreciation, and Tax equivalents were \$39.5 million and \$32.2 million compared to \$49.3 million and \$28.6 million for 2013 and 2012, respectively. The decrease in depreciation was the result of a number of assets becoming fully depreciated in prior years. Tax equivalents consist primarily of payments in-lieu-of taxes to the Metropolitan Government and the surrounding counties. Such payments are calculated based on a prescribed formula that takes into consideration utility plant value and the average of the Board's last three years' operating margin. The increase in payments in-lieu-of taxes was the result of increases in tax rates coupled with increased investment in the utility plant.

## MANAGEMENT 'S DISCUSSION AND ANALYSIS (continued)

The following table shows the composition of the operating expenses of the Board by major classifications of expense for the last three years:

### Major Classifications of Expense (\$000 omitted)

<u>Description</u>	<u>Fiscal 2014</u>	<u>Fiscal 2013</u>	<u>Increase (Decrease)</u>	<u>Fiscal 2012</u>	<u>Increase (Decrease)</u>
Labor	\$ 63,371	\$ 59,316	6.8%	\$ 56,244	5.5%
Benefits	42,697	42,958	(0.6%)	42,786	0.4%
Tree-trimming	9,561	9,602	(0.4%)	10,652	(9.9%)
Outside Services	9,990	10,632	(6.0%)	8,123	30.9%
Materials	2,242	3,021	(25.8%)	1,528	97.7%
Transportation	4,488	4,683	(4.2%)	4,184	11.9%
Security/Police	1,167	1,141	2.3%	1,168	(2.3%)
Rentals	959	969	(1.0%)	917	5.7%
Professional Fees	925	1,252	(26.1%)	1,162	7.7%
Insurance Premiums	1,184	1,191	(0.6%)	1,025	16.2%
Other	<u>13,680</u>	<u>15,984</u>	(14.4%)	<u>13,500</u>	18.4%
	<u>\$150,264</u>	<u>\$150,749</u>	(0.3%)	<u>\$141,289</u>	6.7%

The Board's total operating expenses decreased 0.3 percent from June 30, 2013 to June 30, 2014. Labor for fiscal year 2014 totaled \$63.4 million, which represents an increase from fiscal year 2013 due to increases in cost of living, merit adjustments, and step increases. Benefits and tree-trimming remained stable from 2013 to 2014. The Outside Services decreased primarily due to one-time additional projects in 2013. Materials were lower primarily due to early completion of the relamping project and additional new business capital work in 2014. Transportation costs decreased in 2014 primarily due to less utilization of vehicles. Security/Police increased due to negotiation of a new vendor contract in 2014. Rentals and insurance premiums have seen slight decreases from 2013. Professional fees decreased due to reduced outside legal fees in 2014. The Other category contains a wide array of smaller expense types. In fiscal year 2014, the primary decreases occurred in decreases in protectors and switches, \$0.2 million; temporary agency services, \$0.1 million; and education and training, \$0.1 million.

### **Capital Assets and Debt Administration**

The Board's transmission and distribution facilities serve more than 700 square miles and include the Metropolitan Government of Nashville and Davidson County, Tennessee. The Board also serves portions of the adjacent counties of Cheatham, Rutherford, Robertson, Sumner, Wilson, and Williamson. Such facilities require significant annual capital and maintenance expenditures. The Board's target is to have the capital expenditures funded equally from cash flow from operations and proceeds from tax-exempt bonds. The Board's investment in utility plant, less accumulated depreciation, at June 30, 2014, was \$902.9 million compared to \$890.3 million at June 30, 2013. Major projects during fiscal year 2014 included \$13.5 million in new business installations; \$5.5 million in substation improvements including site preparation and equipment for the new Trinity Hills substation, \$4.7 million in substation maintenance, \$3 million in lighting installations and replacements and \$2.7 million in distribution improvements.

## MANAGEMENT 'S DISCUSSION AND ANALYSIS (continued)

In 2014, NES entered into an agreement with a general contractor for the construction of its new North Service and Training Center. The contract term is 15 months with an expiration of June 30, 2015. The contract's not-to-exceed value is \$12.5 million of which \$2.4 million has been expended as of June 30, 2014.

The Board has outstanding bonds payable of \$652.0 million at June 30, 2014, compared to \$555.4 million at June 30, 2013. This increase is due to the issuance of the 2014 Electric Service Revenue Series A Bonds of \$109.1 million with associated premiums of \$16.5 million; offset by debt payments, accretion, and amortization of \$26.3 million and \$2.7 million, respectively. More details about the Board's capital assets and debt can be found in the notes to the financial statements.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Teresa Broyles-Aplin".

Teresa Broyles-Aplin  
Executive Vice President and Chief Financial Officer

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**

**STATEMENTS OF NET POSITION (\$000 OMITTED)  
JUNE 30, 2014 AND 2013**

	2014	2013
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 267,994	\$ 221,722
Customer and other accounts receivable, less allowance for doubtful accounts of \$1,819 and \$2,298 respectively	144,325	139,217
Materials and supplies	19,723	19,319
Other current assets	<u>5,445</u>	<u>2,814</u>
<b>TOTAL CURRENT ASSETS</b>	<u>437,487</u>	<u>383,072</u>
INVESTMENT OF RESTRICTED FUNDS:		
Cash and cash equivalents	141,667	56,105
Other investments	<u>41,134</u>	<u>25,205</u>
<b>TOTAL INVESTMENT OF RESTRICTED FUNDS</b>	<u>182,801</u>	<u>81,310</u>
UTILITY PLANT:		
Electric plant, at cost	1,474,409	1,455,716
Less: Accumulated depreciation	<u>(571,479)</u>	<u>(565,396)</u>
<b>TOTAL UTILITY PLANT, NET</b>	<u>902,930</u>	<u>890,320</u>
ENERGY CONSERVATION PROGRAMS' NOTES RECEIVABLE	2,554	1,997
OTHER NON-CURRENT ASSETS	<u>250</u>	<u>268</u>
<b>TOTAL ASSETS</b>	<u>1,526,022</u>	<u>1,356,967</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred amount on refunding of debt	<u>9,831</u>	<u>11,195</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>1,535,853</u>	<u>1,368,162</u>

See notes to financial statements.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**

**STATEMENTS OF NET POSITION (\$000 OMITTED)  
JUNE 30, 2014 AND 2013 (continued)**

	2014	2013
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>		
CURRENT LIABILITIES:		
Accounts payable for purchased power	165,262	154,155
Other accounts payable and accrued expenses	26,899	27,173
Customer deposits	<u>13,333</u>	<u>13,239</u>
TOTAL CURRENT LIABILITIES	<u>205,494</u>	<u>194,567</u>
CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:		
Construction contracts payable	1,372	1,468
Accrued interest payable	2,823	2,931
Current portion of long-term debt	<u>29,700</u>	<u>26,270</u>
TOTAL CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS	<u>33,895</u>	<u>30,669</u>
LONG-TERM DEBT, LESS CURRENT PORTION	<u>622,309</u>	<u>529,115</u>
OTHER NON-CURRENT LIABILITIES	<u>12,994</u>	<u>13,557</u>
COMMITMENTS AND CONTINGENCIES		
TOTAL LIABILITIES	<u>874,692</u>	<u>767,908</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred revenue	<u>-</u>	<u>-</u>
<b>NET POSITION</b>		
Net investment in capital assets	259,378	344,661
Restricted	62,979	54,735
Unrestricted	<u>338,804</u>	<u>200,858</u>
TOTAL NET POSITION	<u>661,161</u>	<u>600,254</u>
TOTAL LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	<u>\$ 1,535,853</u>	<u>\$ 1,368,162</u>

See notes to financial statements.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION (\$000 OMITTED)  
YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
OPERATING REVENUES:		
Residential	\$ 530,113	\$ 488,025
Commercial and industrial	672,954	649,003
Street and highway lighting	19,726	16,590
Other	<u>18,641</u>	<u>20,806</u>
Total operating revenues, net	1,241,434	1,174,424
PURCHASED POWER	<u>926,575</u>	<u>900,916</u>
Operating revenues, net, less purchased power	<u>314,859</u>	<u>273,508</u>
OPERATING EXPENSES:		
Distribution	61,889	59,258
Customer accounts	20,302	22,064
Customer service and information	1,206	1,668
Administrative and general	66,867	67,759
Tax equivalents	32,641	32,211
Depreciation	<u>49,106</u>	<u>39,484</u>
Total operating expenses	<u>232,011</u>	<u>222,444</u>
Operating income	<u>82,848</u>	<u>51,064</u>
NON-OPERATING REVENUE (EXPENSE):		
Interest income	295	525
Interest expense, net	<u>(22,236)</u>	<u>(23,797)</u>
Total non-operating expense	<u>(21,941)</u>	<u>(23,272)</u>
NET INCREASE IN NET POSITION	60,907	27,792
NET POSITION, beginning of year	<u>600,254</u>	<u>572,462</u>
NET POSITION, end of year	<u>\$ 661,161</u>	<u>\$ 600,254</u>

See notes to financial statements.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**

**STATEMENTS OF CASH FLOWS (\$000 OMITTED)  
YEARS ENDED JUNE 30, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 1,235,814	\$ 1,179,611
Payments to suppliers for goods and services	(1,015,842)	(1,014,167)
Payments to employees	(53,298)	(49,971)
Payments for tax equivalents	<u>(31,885)</u>	<u>(31,484)</u>
Net cash provided by operating activities	<u>134,789</u>	<u>83,989</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of utility plant	(51,534)	(61,286)
Utility plant removal costs	(14,521)	(10,751)
Salvage received from utility plant retirements	2,224	1,488
Contributions in aid of construction	488	11,783
Principal payments on revenue bonds	(26,270)	(21,367)
Interest payments on revenue bonds	(23,311)	(28,842)
Proceeds from sale of revenue bonds	<u>125,588</u>	<u>-</u>
Net cash provided by (used in) capital and related financing activities	<u>12,665</u>	<u>(108,975)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investment securities	(91,259)	(67,183)
Proceeds from sales and maturities of investment securities	75,330	144,120
Interest on investments	<u>309</u>	<u>908</u>
Net cash provided by (used in) investing activities	<u>(15,620)</u>	<u>77,845</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>131,833</b>	<b>52,859</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b><u>277,827</u></b>	<b><u>224,968</u></b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 409,661</u></b>	<b><u>\$ 277,827</u></b>

See notes to financial statements.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**

**STATEMENTS OF CASH FLOWS (\$000 OMITTED)  
YEARS ENDED JUNE 30, 2014 AND 2013 (continued)**

	2014	2013
Reconciliation of operating income to net cash provided		
by operating activities:		
Operating income	\$ 82,848	\$ 51,064
Adjustments to reconcile operating income		
to net cash provided by operating activities:		
Depreciation	50,333	41,200
Accrual for uncollectible accounts	2,713	2,523
Changes in assets and liabilities:		
(Increase) decrease in customer and other accounts receivable	(10,597)	2,962
Decrease in materials and supplies	596	1,722
Increase in other current assets	(2,631)	(640)
Increase in energy conservation programs' notes receivable	(557)	(449)
Decrease in other non-current assets	18	20
Increase (decrease) in accounts payable for purchased power	11,107	(9,673)
Decrease in other accounts payable and accrued expenses	(274)	(4,700)
Increase in customer deposits	94	151
Increase (decrease) in payable to TVA—energy conservation programs	1,139	(157)
Decrease in other non-current liabilities	—	(34)
Net cash provided by operating activities	<u>\$ 134,789</u>	<u>\$ 83,989</u>

**NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES:**

Accounts payable associated with the acquisition and construction of utility plant was \$1.4 million in 2014 and \$1.5 million in 2013.

During 2014 and 2013, NES charged \$32.7 million and \$18.6 million, respectively, to accumulated depreciation representing the cost of retired utility plant.

During 2014 and 2013, \$3.9 million was credited to interest expense for amortization of net bond premiums and discounts in each year. During 2014, \$1.1 million was recognized as interest expense related to deferred outflows for losses related to bond refunding. In addition, NES expensed debt issuance costs of \$0.9 million and \$0.6 million in 2014 and 2013, respectively.

During 2014, NES and the Metropolitan Government of Nashville reached an agreement in which the Music City Convention Authority receivable of \$2.8 million was exchanged for land that was of a similar value.

During 2013, the 2013 Series A Bonds were issued to refund \$58.9 million aggregate principal amount of the Board's 2004 Series A Bonds.

During 2014, \$1.0 million of Distribution assets were transferred back to Material and Supplies.

See notes to financial statements.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2014 AND 2013

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Electric Power Board of the Metropolitan Government of Nashville and Davidson County (the "Board") was established in 1939 when the City of Nashville purchased certain properties of the Tennessee Electric Power Company for the purpose of exercising control and jurisdiction over the electric distribution system. In conducting the operations of the electric distribution system, the Board does business as Nashville Electric Service ("NES"). NES is a component unit of The Metropolitan Government of Nashville and Davidson County, Tennessee (the "Metropolitan Government"), and is operated by a five-member board appointed by the Mayor and confirmed by the Council of the Metropolitan Government. Members of NES serve five-year staggered terms without compensation. In accordance with the Charter of the Metropolitan Government, NES exercises exclusive control and management, except NES must obtain the approval of the Council before issuing revenue bonds. The Board establishes rates. Such rates are approved by the Tennessee Valley Authority ("TVA"). The Metropolitan Government does not assume liability for the financial obligations of NES. In addition, the assets of NES cannot be encumbered to satisfy obligations of the Metropolitan Government. NES appoints a chief executive officer, who is charged with the responsibility for the day-to-day operations, including the hiring of employees.

The financial statements of NES have been prepared in conformity with accounting principles generally accepted in the United States of America. NES maintains its accounts in accordance with the Uniform System of Accounts prescribed by the Federal Energy Regulatory Commission using the economic measurement focus and the accrual basis of accounting. NES is not subject to the jurisdiction of federal or state energy regulatory commissions.

NES has adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (GASB 62), which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance included in U.S. Financial Accounting Standards Board (FASB) pronouncements, which does not conflict with or contradict GASB pronouncements, and eliminates the criteria to apply post-November 30, 1989 FASB pronouncements that do not conflict with or contradict GASB pronouncements.

The significant accounting policies followed by NES are outlined below.

***Use of Estimates***

Estimates used in the preparation of financial statements are based on management's best judgments. The most significant estimates relate to allowance for uncollectible accounts receivable, useful lives of capital assets, employee benefit plan obligations, and unreported medical claims. These estimates may be adjusted as information that is more current becomes available.

***Cash and cash equivalents***

For purposes of the statements of cash flows, cash and cash equivalents include cash, commercial paper, U.S. Treasury Bills and certificates of deposit with an original maturity of three months or less.

***Restricted Assets***

Restricted assets of NES represent bond proceeds designated for construction and other monies required to be restricted for debt service. As of June 30, 2014 and 2013, amounts restricted for debt service were \$65.8 million and \$57.6 million, respectively.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2014 AND 2013

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Utility Plant***

Electric plant is stated at original cost. Such cost includes applicable general and administrative costs, depreciation of vehicles used in the construction process, and payroll and related costs such as pensions, taxes and other fringe benefits related to plant construction. Interest cost incurred during the period of construction of certain plant is capitalized. Allowances for funds used during constructions (AFUDC), approximates NES' current weighted average cost of debt. AFUDC was capitalized as a component of the cost of utility plant. AFUDC was \$219 thousand in 2014 and \$582 thousand in 2013.

When plant assets are disposed of at salvage value, NES charges the amount to accumulated depreciation. Costs of depreciable retired utility plant, plus removal costs, less salvage, are charged to accumulated depreciation.

Depreciation is provided at rates that are designed to amortize the cost of depreciable plant over the estimated useful lives ranging from 7 to 50 years. The composite straight-line rates expressed as a percentage of average depreciable plant were as follows for June 30, 2014 and 2013:

	2014	2013
Distribution plant, 18.2 to 40 years	3.5%	3.5%
Structure and improvements, 40 to 50 years	2.1%	2.1%
Office furniture and equipment, 7.1 to 16.7 years	5.0%	2.6%
Transportation equipment, 8 to 10 years	6.1%	5.6%
Other equipment, 8 to 33.3 years	5.3%	5.7%

Maintenance and repairs, including the cost of renewals of minor items of property, are charged to maintenance expense accounts. Replacements of property are charged to utility plant accounts.

***Contributions in Aid of Construction (CIAC)***

Payments are received from customers and TVA for construction costs primarily relating to the expansion or improvement of the capabilities of the electric system. FERC guidelines are followed in recording CIAC, which direct the reduction of utility plant assets by the amount of contributions received toward the construction of utility plant. CIAC earned and recovered in the plant costs was \$2.2 million in 2014 and \$3.1 million in 2013.

***Investments of Restricted Funds***

Investments and cash equivalents (including restricted assets) consist primarily of short-term U.S. Government securities or mortgage-backed securities from agencies chartered by Congress and cash equivalents which are investments with an original maturity of three months or less, respectively. In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reflected at their fair value except those investments that have a remaining maturity at the time of purchase of one year or less and certificates of deposit, which are reflected at amortized cost and cost, respectively.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2014 AND 2013

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Materials and Supplies***

Materials and supplies are stated at weighted average cost, which approximates actual cost.

***Compensated Absences***

NES recognizes a liability for employees' accumulated vacation days. The general policy of NES permits the accumulation, within certain limitations, of unused vacation days. This amount is included in other accounts payable and accrued expenses in the Statement of Net Position.

***Net Position***

Net position is reported in three components on the Statement of Net Position: Net investment in capital assets, Restricted, and Unrestricted. The net investment in capital assets is the portion of net position that consists of capital assets, net of accumulated depreciation, plus deferred outflows of resources reduced by outstanding debt and construction contracts payable that are attributable to the acquisition, construction, or improvement of those assets. The Restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. A net position is reported as restricted when constraints are externally imposed on the use of net position. The Restricted net position consists of \$24.7 million in restricted cash and cash equivalents and \$41.1 million in restricted other investments, reduced by \$2.8 million in accrued interest payable. Unrestricted is the share of net position that is neither restricted nor invested in capital assets.

***Revenues***

Revenues are recognized from meters read on a monthly cycle basis. Service that has been rendered from the latest date of each meter-reading cycle to month end is estimated and accrued as unbilled revenue receivable. In addition to a base rate, NES collects and recognizes a variable fuel cost adjustment based upon changing fuel and purchased power costs which is a pass-through from TVA. NES also collects sales tax from a majority of its commercial customers. Revenues are presented net of sales tax.

***Purchased Power***

NES purchases electric power from the TVA. On April 1, 2011, TVA implemented a new wholesale Time of Use rate structure, which includes a variable fuel charge component. With the new structure, retail customers are billed under a seasonal rate structure. In addition, wholesale rates are billed based on energy use and demand charges. Prior to this, the cost of purchased power was calculated based upon retail billing units adjusted for estimated line losses.

***Asset Retirement Obligations***

Asset retirement obligations are periodically reviewed and management has concluded that, at present, NES does not have any such asset retirement obligations.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2014 AND 2013

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Operating and Non-operating Revenues and Expenses***

Operating revenues include the sale of power and rental of electric property less accruals for uncollectible accounts. Operating expenses include direct and indirect costs to operate and maintain the electric distribution system, including purchased power, fuel, depreciation, customer accounts, tax equivalents, and general and administrative costs. Non-operating revenues and expenses consist of interest income and expense and gains or losses on the disposal of certain assets.

***Income Taxes***

NES is not subject to federal or state income taxes. While NES is not subject to property tax, NES pays tax equivalents in-lieu-of taxes to the Metropolitan Government and surrounding counties. Such payments are calculated based on a prescribed formula that takes into consideration utility plant value and the average of the Board's last three years' operating margin, which is the operating revenues, net less purchased power expenses.

***Fair Value of Financial Instruments***

Fair value of financial instruments has been determined by NES using available market information. The carrying amounts of cash and short-term investments, investments of special funds, accounts receivable and accounts payable are a reasonable estimate of their fair value. The fair value of NES' long-term debt is estimated to be \$684.0 million and \$574.2 million at June 30, 2014 and 2013, respectively, based on pricing models derived from trading activity of similar long-term municipal debt, which are a reasonable estimate of their fair value. However, judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the fair values of debt are not necessarily indicative of the amounts that NES could realize in a current market exchange.

***Reclassifications***

Certain reclassifications have been made to the fiscal year 2013 balances to conform to fiscal year 2014 presentation.

***Recent Accounting Pronouncements***

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, which improves the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and inter-period equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The provisions for Statement No. 68 are effective for periods beginning after June 15, 2014, respectively.

The new standard improves the accounting and financial reporting by state and local governments for periods. It will also result in NES recognizing the net pension liability on the statement of net position for its pension plan. The net pension liability is the discounted liability determined based on the expected benefit payments for past periods of service (i.e., the Total Pension Liability) less the assets in the plan based on the assets fair value at the measurement date (i.e., the Fiduciary Net Position). At June 30, 2014, NES estimated that the net pension liability was approximately \$157.0 million. This adjustment would also result in a similar decrease in the unrestricted net position on the statement of net

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2014 AND 2013

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

position. When the statement is applied, the recognition of the net pension liability will be presented as a prior period adjustment. All periods presented and affected will be adjusted. The new standard computes the actuarially determined contribution in a new manner. NES does not expect the funding amounts to differ materially under the new accounting standards. Other measurement changes include recognizing pension expense in-lieu-of annual pension cost. NES estimated that the pension expense for the 2014 Plan year would have been \$18.5 million compared to \$22.9 million. The statement will improve transparency about the pension plan through new note disclosures and supplementary information. The statement will be implemented by NES in 2015.

The impacts of GASB 68 on the recognition and disclosure on the NES deferred compensation plan (the 457 Plan) are not expected to be material. GASB 68 does not change the reporting or recognition requirements for NES post-employment benefits plan.

In November of 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, an amendment of GASB Statement No. 68, which addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement amends GASB 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68, which NES will implement in 2015. The impact is not expected to be significant on the measurement of the beginning net pension liability.

The Financial Accounting Standards Board (the FASB) issued a new revenue recognition standard ASU 2014-09, *Revenue From Contracts With Customers* that will supersede virtually all revenue recognition guidance in U.S. GAAP. The core principle of the new standard is that an entity will recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer.

The new guidance must be adopted using either a full retrospective approach for all periods presented in the period of adoption or a modified retrospective approach. The earliest effective date for certain entities following U.S. GAAP is fiscal years beginning after December 15, 2016. The Company has not yet completed its evaluation of the impacts of this standard.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2014 AND 2013

**2. UTILITY PLANT AND ACCUMULATED DEPRECIATION**

Utility plant activity for the years ended June 30, 2014 and 2013 was as follows (\$000 omitted):

	<b>Balance June 30, 2013</b>	<b>Additions</b>	<b>Transfers &amp; Retirements</b>	<b>Balance June 30, 2014</b>
Distribution plant	\$ 1,252,508	\$ 54,413	\$ (14,393)	\$ 1,292,528
Land and land rights	1,139	2,762	-	3,901
Structures and improvements	49,401	2,976	(138)	52,239
Office furniture and equipment	40,292	1,523	(13,768)	28,047
Transportation equipment	6,969	1,502	(1,060)	7,411
Other equipment	40,344	6,093	(4,533)	41,904
Construction work-in-progress (a)	<u>65,063</u>	<u>-</u>	<u>(16,684)</u>	<u>48,379</u>
	<u>\$ 1,455,716</u>	<u>\$ 69,269</u>	<u>\$ (50,576)</u>	<u>\$ 1,474,409</u>

	<b>Balance June 30, 2012</b>	<b>Additions</b>	<b>Transfers &amp; Retirements</b>	<b>Balance June 30, 2013</b>
Distribution plant	\$ 1,212,008	\$ 52,630	\$ (12,130)	\$ 1,252,508
Land and land rights	1,139	-	-	1,139
Structures and improvements	48,277	1,124	-	49,401
Office furniture and equipment	41,887	2,928	(4,523)	40,292
Transportation equipment	7,274	345	(650)	6,969
Other equipment	39,528	2,186	(1,370)	40,344
Construction work-in-progress (a)	<u>67,032</u>	<u>-</u>	<u>(1,969)</u>	<u>65,063</u>
	<u>\$ 1,417,145</u>	<u>\$ 59,213</u>	<u>\$ (20,642)</u>	<u>\$ 1,455,716</u>

(a) Represents the net activity to the construction work-in-progress account after transfers to plant accounts.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2014 AND 2013

**2. UTILITY PLANT AND ACCUMULATED DEPRECIATION (continued)**

The related activity for accumulated depreciation for the years ended June 30, 2014 and 2013 was as follows (\$000 omitted):

	<b>Balance June 30, 2013</b>	<b>Provision</b>	<b>Original Cost</b>	<b>Cost of Removal</b>	<b>Salvage</b>	<b>Balance June 30, 2014</b>
Distribution plant	\$ 486,878	\$45,091	\$ (13,182)	\$ (14,521)	\$ 1,053	\$ 505,319
Structures and improvements	18,897	1,056	(130)	-	-	19,823
Office furniture and equipment	33,344	1,715	(13,678)	-	-	21,381
Transportation equipment	2,497	441	(1,050)	-	156	2,044
Other equipment	<u>23,780</u>	<u>2,757</u>	<u>(4,640)</u>	<u>-</u>	<u>1,015</u>	<u>22,912</u>
	<u>\$ 565,396</u>	<u>\$ 51,060</u>	<u>\$ (32,680)</u>	<u>\$ (14,521)</u>	<u>\$ 2,224</u>	<u>\$ 571,479</u>

	<b>Balance June 30, 2012</b>	<b>Provision</b>	<b>Original Cost</b>	<b>Cost of Removal</b>	<b>Salvage</b>	<b>Balance June 30, 2013</b>
Distribution plant	\$ 464,293	\$ 44,241	\$ (12,130)	\$ (10,751)	\$ 1,225	\$ 486,878
Structures and improvements	17,873	1,024	-	-	-	18,897
Office furniture and equipment	43,651	(5,784)	(4,523)	-	-	33,344
Transportation equipment	2,546	403	(650)	-	198	2,497
Other equipment	<u>23,769</u>	<u>1,316</u>	<u>(1,370)</u>	<u>-</u>	<u>65</u>	<u>23,780</u>
	<u>\$ 552,132</u>	<u>\$ 41,200</u>	<u>\$ (18,673)</u>	<u>\$ (10,751)</u>	<u>\$ 1,488</u>	<u>\$ 565,396</u>

Depreciation is either capitalized as a cost of utility plant for equipment used in the construction of assets or reported as depreciation expense in the statements of revenues, expenses and changes in net position. Depreciation capitalized was \$0.7 million and \$0.6 million in 2014 and 2013, respectively.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2014 AND 2013

**3. CASH AND INVESTMENTS**

Cash and investments consist of the following (\$000 omitted):

<b>2014</b>					
	<b>Cash</b>	<b>Bond Funds</b>	<b>Special Construction</b>	<b>Total</b>	<b>Weighted Average Maturity (Years)</b>
Cash and cash equivalents	\$ 267,994	\$ 24,667	\$ 117,000	\$ 409,661	-
Securities from Agencies Chartered by Congress	-	41,134	-	41,134	1.63
	<u>\$ 267,994</u>	<u>\$ 65,801</u>	<u>\$ 117,000</u>	<u>\$ 450,795</u>	
<b>2013</b>					
	<b>Cash</b>	<b>Bond Funds</b>	<b>Special Construction</b>	<b>Total</b>	<b>Weighted Average Maturity (Years)</b>
Cash and cash equivalents	\$ 221,722	\$ 32,461	\$ 23,644	\$ 277,827	-
Securities from Agencies Chartered by Congress	-	25,205	-	25,205	0.96
	<u>\$ 221,722</u>	<u>\$ 57,666</u>	<u>\$ 23,644</u>	<u>\$ 303,032</u>	

There were \$41.1 million of investments reported at fair value in Securities from Agencies Chartered by Congress held at June 30, 2014. Investments of \$25.2 million held Securities from Agencies Chartered by Congress are reported at amortized cost at June 30, 2013. Standard & Poor's rated such investments AA+ at June 30, 2014.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2014 AND 2013

**3. CASH AND INVESTMENTS (continued)**

***Custodial Credit Risk***

As of June 30, 2014 and 2013, NES' cash and cash equivalents held by financial institutions was \$409.7 million and \$277.8 million, respectively. Bank balances for such accounts totaled \$220.2 million and \$174.3 million, respectively. Deposits in financial institutions are required by State of Tennessee ("State") statute to be secured and collateralized by the institutions. The collateral must meet certain requirements and have a total minimum market value of 105 percent of the value of the deposits placed in the institutions less the amount protected by federal depository insurance. Collateral requirements are not applicable for financial institutions that participate in the State's collateral pool. As of June 30, 2014 and 2013, all of NES' deposits were held by financial institutions, which participate in the bank collateral pool administered by the State Treasurer. Participating banks determine the aggregated balance of their public-fund accounts for the Metropolitan Government. The amount of collateral required to secure these public deposits is a certain percentage set by the State, depending on the financial institution, and must be at least that percentage of the average daily balance of public deposits held. Collected securities required to be pledged by the participating banks to protect their public-fund accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public-fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

***Credit Risk***

NES is authorized to invest in obligations of the U.S. Treasury and U.S. governmental agencies, securities from agencies chartered by Congress, certificates of deposit, commercial paper rated A1 or equivalent and bonds of the State of Tennessee. Each of these investments is registered or held by NES or its agent in NES' name.

***Concentration of Credit Risk***

NES has a policy prohibiting investment of greater than \$5 million or 20.0 percent of the total investment portfolio in any one issue, except for the U.S. Government or any of its agencies. In 2014 and 2013, 100.0 percent of NES' investments were in Securities from Agencies Chartered by Congress.

***Interest Rate Risk***

NES restricts its investments other than for construction, debt service, and pensions to those with maturities less than two years from the date of settlement as a means of managing exposure to fair value losses arising from changes in interest rates.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2014 AND 2013

**4. LONG-TERM DEBT**

Long-term debt for the year ended June 30, 2014, is as follows (\$000 omitted):

	Balance June 30, 2013	Deductions/ Repayments	Additions/ Amortization/ Accretion	Balance June 30, 2014
Electric System Revenue Bonds, 1998 Series A, bear interest at rates from 5.125% to 5.40%, maturing through May 15, 2023, interest paid semiannually.	\$27,410	-	1,500	28,910
Electric System Revenue Bonds, 1998 Series B, bear interest at rates from 4.75% to 5.50%, maturing through May 15, 2017, interest paid semiannually.	23,728	(5,400)	(104)	18,224
Electric System Revenue Bonds, 2001 Series B, bear interest at 5.50%, maturing through May 15, 2014, interest paid semiannually.	12,126	(12,035)	(91)	-
Electric System Revenue Bonds, 2008 Series A, bear interest at rates from 3.25% to 5.00%, maturing through May 15, 2033, interest paid semiannually.	97,518	(3,065)	(184)	94,269
Electric System Revenue Bonds, 2008 Series B, bear interest at rates from 3.25% to 5.00%, maturing through May 15, 2023, interest paid semiannually.	74,828	(1,160)	(437)	73,231
Electric System Revenue Bonds, 2011 Series A, bear interest at rates from 1.50% to 5.00%, maturing through May 15, 2036, interest paid semiannually.	105,132	(2,600)	(739)	101,793
Electric System Revenue Bonds, 2011 Series B, bear interest at rates from 2.00% to 5.00%, maturing through May 15, 2026, interest paid semiannually.	152,944	(2,010)	(2,326)	148,608
Electric System Revenue Bonds, 2013 Series A, bear interest at rates from 3.25% to 5.00%, maturing through May 15, 2029, interest paid semiannually.	61,699	-	(296)	61,403
Electric System Revenue Bonds, 2014 Series A, bear interest at rates from 2.00% to 5.00%, maturing through May 15, 2039, interest paid semiannually.	-	-	125,571	125,571
	555,385	<u>\$ (26,270)</u>	<u>\$ 122,894</u>	652,009
Less current portion of long-term debt	<u>(26,270)</u>			<u>(29,700)</u>
	<u>\$ 529,115</u>			<u>\$ 622,309</u>

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2014 AND 2013

**4. LONG-TERM DEBT (continued)**

Long-term debt for the year ended June 30, 2013, is as follows (\$000 omitted):

	Balance June 30, 2012	Deductions/ Repayments	Additions/ Amortization/ Accretion	Balance June 30, 2013
Electric System Revenue Bonds, 1996 Series A, bear interest at rates from 5.5% to 6%, maturing through May 15, 2013, interest paid semiannually.	\$ 6,244	\$(2,412)	\$ (3,832)	\$ -
Electric System Revenue Bonds, 1998 Series A, bear interest at rates from 5.125% to 5.40%, maturing through May 15, 2023, interest paid semiannually.	25,988	-	1,422	27,410
Electric System Revenue Bonds, 1998 Series B, bear interest at rates from 4.75% to 5.50%, maturing through May 15, 2017, interest paid semiannually.	28,972	(5,120)	(124)	23,728
Electric System Revenue Bonds, 2001 Series B, bear interest at 5.50%, maturing through May 15, 2014, interest paid semiannually.	18,644	(6,365)	(153)	12,126
Electric System Revenue Bonds, 2004 Series A, bear interest at rates from 4.50% to 5.00%, maturing through May 15, 2029, interest paid semiannually.	57,973	(58,875)	902	-
Electric System Revenue Bonds, 2008 Series A, bear interest at rates from 3.25% to 5.00%, maturing through May 15, 2033, interest paid semiannually.	100,665	(2,960)	(187)	97,518
Electric System Revenue Bonds, 2008 Series B, bear interest at rates from 3.25% to 5.00%, maturing through May 15, 2023, interest paid semiannually.	75,250	-	(422)	74,828
Electric System Revenue Bonds, 2011 Series A, bear interest at rates from 1.50% to 5.00%, maturing through May 15, 2036, interest paid semiannually.	108,432	(2,520)	(780)	105,132
Electric System Revenue Bonds, 2011 Series B, bear interest at rates from 2.00% to 5.00%, maturing through May 15, 2026, interest paid semiannually.	157,257	(1,990)	(2,323)	152,944
Electric System Revenue Bonds, 2013 Series A, bear interest at rates from 3.25% to 5.00%, maturing through May 15, 2029, interest paid semiannually.	-	-	61,699	61,699
	579,425	<u>\$ (80,242)</u>	<u>\$ 56,202</u>	555,385
Less current portion of long-term debt	<u>(21,367)</u>			<u>(26,270)</u>
	<u>\$ 558,058</u>			<u>\$ 529,115</u>

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2014 AND 2013

**4. LONG-TERM DEBT (continued)**

NES issues Revenue Bonds to provide funds primarily for capital improvements and for refundings of other bonds. All bond issues are secured by a pledge and lien on the net revenues of NES on parity with the pledge established by all bonds issued. Annual maturities on all long-term debt and related interest are as follows for each of the next five fiscal years and in five-year increments thereafter (\$000 omitted):

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 29,700	\$ 26,695
2016	31,230	26,026
2017	25,356	32,160
2018	24,593	31,462
2019	25,316	30,743
2020-2024	176,210	91,784
2025-2029	146,640	52,502
2030-2034	80,580	23,334
2035-2039	<u>46,525</u>	<u>6,173</u>
	586,150	<u>\$ 320,879</u>
Unamortized premium	<u>65,859</u>	
Total long-term debt	<u>\$ 652,009</u>	

On June 25, 2014, the Board closed on the sale of the Metropolitan Government of Nashville and Davidson County, Tennessee, Electric System Revenue Bonds, 2014 Series A. The 2014 Series A Bonds were issued to finance the costs of acquisition, expansion, and improvements to the Electric System in accordance with the Board's capital improvement plan, to fund the Debt Service Reserve Account established under the Bond Resolution, and to pay costs of issuance of the bonds. The bonds have an aggregate principal amount of \$109.1 million and include both serial and term issuances. The 2014 Series A Bonds were issued at a premium totaling \$16.5 million. Serial bonds totaling \$88.0 million mature annually on May 15, 2015 through 2036. A term bond totaling \$21.1 million matures May 15, 2039. At June 30, 2014, the Board has \$117 million in proceeds from the 2014 Series A Bond issuance in cash and cash equivalents that are reported as a component of Investment of Restricted Funds in the accompanying Statements of Net Position. During fiscal year 2014, NES drew no funds from the System Revenue Bonds, 2014 Series A, for capital expenditures.

On June 27, 2013, the Board closed on the sale of the Metropolitan Government of Nashville and Davidson County, Tennessee, Electric System Revenue bonds, 2013 Series A. The 2013 Series A Bonds were being offered to refund \$58.9 million aggregate principal amount of the outstanding 2004 Series A Bonds, maturing May 15, 2025, 2026, and 2029. The par amount of the 2013 Series A bonds, \$56.1 million, plus original issue premium and transfer from prior debt service funds, less underwriter discount and cost of issuance resulted in a deposit into an escrow fund of \$61.8 million. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$3.4 million. This difference, reported in the accompanying financial statements as a deferred outflow of

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2014 AND 2013

**4. LONG-TERM DEBT (continued)**

resources, is being charged to operations through the year 2029 using the effective-interest method. The Board completed the advance refunding to reduce its total debt service payments over the next 16 years by \$8.5 million and to obtain an economic gain of \$3.4 million.

NES had a \$25 million unsecured line-of-credit for fiscal year 2014 and 2013 to be used for purchased power in case of a natural disaster. Borrowings under this line of credit bore a negotiated interest rate. There were no borrowings under this line-of-credit in 2014 or 2013. The line-of-credit is renewable annually. The Company renewed the line of credit effective July 1, 2014, with an expiration date of June 30, 2015.

All bonds are subject to customary covenants restricting the Board from, among other things: (1) issuing additional bonds if certain financial ratios are not met, or (2) selling or leasing or otherwise disposing components of the Electric System except in certain circumstances. Additionally, the Board is required, among other things, to: (1) charge and collect rates, fees and charges to meet the cash flow requirements of the organization and (2) maintain the System including completing necessary improvements. Events of default under the Bonds include, but are not limited to: (1) failure to make principal payments when due and payable, (2) failure to make an installment of interest or sinking fund payment, (3) failure to make payment of an Option bond when duly tendered. NES is not in violation of any covenants at June 30, 2014.

**5. OTHER NON-CURRENT LIABILITIES**

NES' other non-current liabilities consist primarily of TVA energy conservation program loans and customer contributions. The following table shows the activity for the year (\$000 omitted):

	Balance June 30, 2013	Repayments / Earned Contributions	Additions	Balance June 30, 2014
TVA Energy Conservation Loans	\$ 1,337	\$ (647)	\$ 1,786	\$ 2,476
Contributions in Aid of Construction	<u>12,220</u>	<u>(4,492)</u>	<u>2,790</u>	<u>10,518</u>
	<u>\$ 13,557</u>	<u>\$ (5,139)</u>	<u>\$ 4,576</u>	<u>\$ 12,994</u>

	Balance June 30, 2012	Repayments / Earned Contributions	Additions	Balance June 30, 2013
TVA Energy Conservation Loans	\$ 1,493	\$ (493)	\$ 337	\$ 1,337
Contributions in Aid of Construction	<u>3,587</u>	<u>(3,150)</u>	<u>11,783</u>	<u>12,220</u>
	<u>\$ 5,080</u>	<u>\$ (3,643)</u>	<u>\$ 12,120</u>	<u>\$ 13,557</u>

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2014 AND 2013**

**5. OTHER NON-CURRENT LIABILITIES (continued)**

NES is a fiscal intermediary for the TVA energy conservation programs whereby loans are made to NES' customers to be used in connection with TVA's Residential Energy Services Program. Pursuant to the terms of an agreement with TVA, the energy conservation loans made to NES' customers are funded and guaranteed by TVA. During 2014, NES repaid approximately \$2.3 million of advance payments from TVA for certain technologies that NES is no longer intending to pursue for the Smart Grid Pilot Program. During 2013, NES received a payment of \$10 million from TVA for additional improvements for the Smart Grid Pilot Program.

**6. PENSION PLAN**

The Nashville Electric Service Retirement Annuity and Survivors' Plan (the "Plan") is a single employer defined benefit pension plan administered by NES. The Plan provides retirement and survivors' benefits to members and beneficiaries. Cost-of-living adjustments are provided to members and beneficiaries annually. The Charter of the Metropolitan Government assigns the authority to establish and amend benefit provisions to NES. The Plan is not required to issue a separate financial report.

All full-time regular employees hired before June 30, 2012, and under age 65 were eligible to participate in the Plan. Employees hired after June 30, 2012, are eligible to participate in the Nashville Electric Service Defined Contribution Plan. The vesting provision of the Plan provides for five-year cliff vesting. NES employees who retire at or after age 65 are entitled to annual retirement benefits payable monthly for life in an amount equal to 2 percent of final average compensation multiplied by years in the Plan not in excess of 35 years.

Final average compensation is the average compensation in the 36 consecutive months in which compensation is highest. Unused sick leave may be used to increase credited service and benefit percentage under certain circumstances. Early retirement is an option beginning at age 55 with 15 years of credited service or at age 50 with 30 years of credited service with an actuarially-reduced monthly benefit.

If the participant has attained age 55, and his/her age plus service is 85 or greater, then there is no reduction for early receipt of the benefit. However, a participant cannot use accumulated sick leave to increase effective age to meet the requirements for this unreduced benefit. For a participant with 25 or more years of service, the minimum pension benefit is \$1,800 per month.

The contribution requirements of NES are established and may be amended by NES. The Plan is currently non-contributory. NES' practice is to typically fund at least the minimum contribution for a 30-year funding level. The current rate is 37.09 percent of annual covered payroll. NES contributed 99.6 percent and 100 percent of the required contribution for the Plan years 2014 and 2013.

The annual required contribution (which is also the pension cost) for the current year was determined as part of the April 1, 2014, actuarial valuation using the frozen initial liability method. The actuarial assumptions included (a) 7.5 percent investment rate of return and (b) projected salary increases of 2.5 percent. Both (a) and (b) included an inflation component. The assumptions include cost-of-living post-retirement benefit increases equal to 2 percent per year. The actuarial value of Plan assets is determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period. The unfunded actuarial accrued liability is being amortized over 30 years. The required schedule of funding progress below presents multi-year trend information about whether the

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2014 AND 2013

**6. PENSION PLAN (continued)**

actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

A change was made in the plan funding method effective April 1, 2009, whereby the amortization period was reset to a 30-year period beginning April 1, 2009. The result of this funding method change was a decrease in the normal cost of the plan of \$11.0 million and an increase in the Plan's actuarial accrued liability of \$120.5 million.

In April of 2014, the State of Tennessee passed an amendment to the Tennessee Code to establish funding requirements for public defined benefit pension plans. The legislation requires funding by a plan sponsor of at least 100 percent of the actuarially determined contribution, as defined in the legislation. The legislation requires that NES submit a funding policy to the Comptroller by fiscal 2016. The Company is evaluating the effects, if any, that this legislation may have on the financial position of the Company.

Schedule of employer contributions for the past three years is shown below (\$000 omitted):

<b>Plan Year</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
2014	\$ 22,897	99.6%
2013	23,075	100%
2012	21,713	100%

The Plan made payments to participants of \$27.1 million and \$24.5 million for the fiscal years 2014 and 2013, respectively. The Plan also paid administrative fees of \$0.5 million and \$1.8 million in fiscal 2014 and 2013, respectively.

Schedule of funding progress for the past three years is shown below (\$000 omitted):

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL) Entry Age</b>	<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>Unfunded Actuarial Accrued Liability as a Percent of Covered Payroll</b>
	<b>(a)</b>	<b>(b)</b>	<b>(b-a)</b>	<b>(a/b)</b>	<b>(c)</b>	<b>(b-a)/c</b>
4/1/2014	\$ 382,483	\$ 560,095	\$ 177,612	68.30%	\$ 69,410	255.89%
4/1/2013	348,341	502,790	154,449	69.30%	69,576	221.99%
4/1/2012	318,502	477,101	158,599	66.80%	69,419	228.47%

In 1994, NES established a non-qualified Supplemental Executive Retirement Plan (the "SERP"). The SERP was limited to certain employees of NES. Benefits accrued at the rate of 5 percent of salary for each year of credited service not to exceed 12 years and vests at the rate of 20 percent for each year of service, reduced by the percentage accrued and vested under NES' qualified plan. Effective April 1, 2005, the Board merged the SERP with the NES Retirement Annuity and Survivors' Benefit Plan.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2014 AND 2013**

**6. PENSION PLAN (continued)**

Adding the SERP benefits to the Plan increased the funding requirements for the Plan, but the amounts that had accumulated in the SERP Trust were transferred to the Plan in order to offset those increased costs. Future payments that would have been made into the SERP Trust will be directed into the Plan.

At the time of conversion, no benefits had been paid from the SERP. Any change in funding requirements is reflected in the above schedule.

**7. DEFERRED COMPENSATION AND RETIREMENT PLANS**

NES has a deferred compensation plan (the “457 Plan”) created in accordance with Internal Revenue Code (“IRC”) Section 457. The 457 Plan, which is available to all full-time employees, permits employees to defer a portion of their salary until future years. Employees may contribute up to the legal limit of their compensation to the 457 Plan with NES providing a matching contribution of up to 3 percent of compensation. The 457 Plan provides that assets or income of the 457 Plan shall be used for the exclusive purpose of providing benefits for participants and their beneficiaries or defraying reasonable expenses of administration of the 457 Plan. Since the assets of the 457 Plan are held in custodial and annuity accounts for the exclusive benefit of 457 Plan participants, the related assets of the 457 Plan are not reflected on the Statements of Net Position. Employees contributed \$3.6 million for each of the years ended June 30, 2014 and 2013, respectively. NES contributed \$2.0 million to the 457 Plan for the year ended June 30, 2014, and \$1.9 million for the year ended June 30, 2013.

Nashville Electric Service established a Defined Contribution Retirement Plan (the “DC Plan”) for all full-time regular employees not vested in the Retirement Annuity and Survivors’ Plan or hired after July 1, 2012. This plan is intended to be a defined contribution money purchase pension plan. Its purpose is to provide retirement benefits to eligible employees. NES contributed \$0.1 million to the DC Plan for the year ended June 30, 2014. No contributions were made for the year ended June 30, 2013.

**8. POST-EMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note 6 and the deferred compensation benefits described in Note 7, NES provides post-retirement medical, dental, and life insurance benefits to all employees who retire from NES under the provisions of the qualified plan and supplemental executive retirement plan. Medical and dental benefits are also provided to their spouses. As of June 30, 2014, approximately 612 retirees meet those eligibility requirements. Expenses for these post-retirement benefits have previously been recognized as retirees report claims. Those incurred claims totaled \$11.0 million and \$9.6 million for the years ended June 30, 2014 and 2013, respectively. During the year ended June 30, 2008, NES implemented the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. These provisions were applied prospectively with respect to NES’ Other Post-Employment Benefits (OPEB) Plan. GASB Statement No. 45 requires the accrual of OPEB obligations over the working careers of plan members rather than as claims are incurred. The total expenses that were recognized were \$15.5 million and \$18.6 million during the years ended June 30, 2014 and 2013, respectively.

The NES OPEB Plan is a single-employer defined benefit plan funded through an irrevocable trust that was established during the year ended June 30, 2008. The OPEB Plan is not required to issue a separate financial report.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2014 AND 2013

**8. POST-EMPLOYMENT BENEFITS (continued)**

NES' annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45.

The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a 30-year period beginning April 1, 2009. The current rate is 21.63 percent of annual covered payroll. NES contributed 100 percent of the required contribution for the 2014 and 2013 Plan years.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and the annual required contributions of NES are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented below provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Projections of benefits are based on the substantive plan (the plan as understood by NES and plan members) and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between NES and the plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Actuarial valuation date: April 1, 2014

Actuarial cost method: Entry age, normal method

Amortization method: Level percentage of pay, open

Remaining amortization period: 30 years, closed

Asset valuation method: Adjust expected assets on the valuation date toward market value of assets by an amount equal to one-third of the difference between expected and market asset values.

The actuarial assumptions included (a) 7.5 percent investment rate of return and (b) projected salary increases of 4.5 percent. Both (a) and (b) included an inflation component. The assumptions include medical health care cost trend rate increases equal to 5 percent per year and dental health care cost trend rates of 4 percent per year.

Schedule of employer contributions for the past three years is listed below:

<b>Plan Year</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
2014	\$ 15,222	100%
2013	15,361	100%
2012	18,041	100%

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2014 AND 2013

**8. POST-EMPLOYMENT BENEFITS (continued)**

Schedule of funding progress for the past three years is shown below (\$000 omitted):

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL) Entry Age</b>	<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>Funded Percentage</b>	<b>Covered Payroll</b>	<b>Unfunded Actuarial Accrued Liability as a Percent of Covered Payroll</b>
	<b>(a)</b>	<b>(b)</b>	<b>(b-a)</b>	<b>(a/b)</b>	<b>(c)</b>	<b>(b-a)/c</b>
4/1/2014	\$ 66,597	\$ 245,210	\$ 178,613	27.2%	\$ 76,241	234.3%
4/1/2013	56,486	227,605	171,119	24.8%	74,086	231.0%
4/1/2012	36,894	223,058	186,164	16.5%	74,623	249.5%

**9. LEASES**

Total rental expense entering into the determination of net position amounted to approximately \$1.0 million in both 2014 and 2013, respectively. Rental expense consists primarily of payments for facilities rental and leasing arrangements for software licensing. NES leases these facilities and software under various cancelable lease agreements. Rental income is received under pole-attachment leases, which are accounted for as operating leases. The majority of these leases are cancelable by either party within six to twelve months. Therefore, future minimum rentals under these leases are \$2.7 million in 2015. Rental income from telephone provider pole-attachments totaled \$2.5 million for each of the years ended June 30, 2014 and 2013, respectively. Rental income from cable provider pole-attachments totaled \$3.3 million at June 30, 2014, and \$3.6 million at June 30, 2013. The net book value of the poles used in the rental activity was \$128.1 million and \$119.5 million at June 30, 2014 and 2013, respectively.

**10. RISK MANAGEMENT AND LIABILITY**

NES is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. NES is an agency of the Metropolitan Government and is covered under the Tennessee Governmental Tort Liability Act, TCA 29-20-101, et al, (the "Act") and is self-insured under the act for tort liability. NES is immune from any award or judgment for death, bodily injury and/or property damage in excess of the limits as set forth in the Act. Therefore, NES has not secured insurance coverage in excess of such limits. NES is no longer a participant in the Metropolitan Government Insurance Pool (the "Pool") for coverage of most property losses. With some of the sub-limits of the Pool coverage being reached as a result of the damage sustained by many participants of the Pool during the flood of 2010, NES deemed it prudent to withdraw from the Pool and obtain commercial property insurance that would no longer have shared sub-limits.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2014 AND 2013

**10. RISK MANAGEMENT AND LIABILITY (continued)**

NES is self-insured for employee medical, dental and vision claims and self-insured up to \$100,000 for employee medical claims. The changes in the insurance reserves for medical, dental and vision benefits for the years ended June 30, 2014 and 2013 are as follows (\$000 omitted):

Balance – June 30, 2012	\$ 2,551
Payments	(20,735)
Incurred Claims	<u>20,672</u>
Balance – June 30, 2013	2,488
Payments	(20,959)
Incurred Claims	<u>21,455</u>
Balance – June 30, 2014	<u>\$ 2,984</u>

NES continues to carry commercial insurance for all other risks of loss, including a retention with excess workers' compensation coverage and employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NES is party to various lawsuits filed against it in the normal course of business. Management does not believe that damages, if any, arising from outstanding litigation, will have a material effect on the financial position of NES.

**11. RELATED PARTY TRANSACTIONS**

NES had related party balances and transactions as a result of providing electric power to the Metropolitan Government and entities of the Metropolitan Government, as well as making tax-equivalent payments to the Metropolitan Government and other payments to entities of the Metropolitan Government. These balances and transactions as of and for the years ended June 30, 2014 and 2013 are summarized as follows (\$000 omitted):

	2014	2013
Balances:		
Accounts receivable	\$ 3,003	\$ 2,303
Transactions:		
Commercial and industrial revenue – Metropolitan Government Entities	60,154	58,208
Outdoor lighting – Metropolitan Government Entities	9,002	7,069
Tax equivalents operating expense – Metropolitan Government Entities	30,405	30,022

During 2014, NES and the Metropolitan Government of Nashville reached an agreement in which the Music City Convention Authority receivable of \$2.8 million at June 30, 2013, was exchanged for land that was of a similar value.

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2014 AND 2013**

**12. COMMITMENTS**

In 2014, NES entered into an agreement with a general contractor for the construction of its new North Service and Training Center. The contract term is 15 months with an expiration of June 30, 2015. The contract's not to exceed value is \$12.5 million of which \$2.4 million has been expended as of June 30, 2014.

**13. SUBSEQUENT EVENTS**

NES has evaluated subsequent events through October 16, 2014, the issuance date of the financial statements, and has determined that there are no subsequent events that require disclosure.

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**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**

**SUPPLEMENTARY INFORMATION**

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**

**SCHEDULE OF INSURANCE COVERAGE  
YEAR ENDED JUNE 30, 2014 (UNAUDITED)**

<b>Type of Coverage</b>	<b>Amount of Coverage</b>
<b>Property Insurance</b>	
General plant, contents, substations and construction in progress	\$150,000,000
<b>Boiler &amp; Machinery</b>	
Limit per Accident	\$50,000,000
<b>Electronic Data Processing and Computer Equipment</b>	\$15,000,000
<b>Vehicle Coverage</b>	
Automobile physical damage:	\$150,000,000
Vehicles subject to 24-hour take home	
Liability	\$2,000,000
Medical	\$5,000
Uninsured motorist	\$1,000,000
Excess liability on 24-hour NES vehicles	\$4,000,000
<b>Workers' Compensation</b>	
Excess coverage over \$400,000 retention	
Workers' compensation second layer	Statutory
Employers liability	\$35,400,000
<b>Directors and Officers Liability/Public Officials Liability</b>	
Employment practices liability	\$50,000,000
<b>Fiduciary/Pension Trust Liability</b>	\$15,000,000
Excess fiduciary	\$10,000,000
<b>Crime Coverage (Per nature of crime)</b>	
Employee theft	\$3,000,000
Loss inside	\$3,000,000
Loss outside	\$3,000,000
Money order/counterfeit	\$3,000,000
Forgery or alteration	\$3,000,000
Computer crime	\$3,000,000
Funds transfer fraud	\$3,000,000
<b>Group Travel</b>	
24-hour business trip for all full-time employees and non-employee member of EPB	\$400,000
<b>Extortion</b>	\$3,000,000

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**

**SCHEDULE OF INSURANCE COVERAGE  
YEAR ENDED JUNE 30, 2014 (UNAUDITED)**

<b>Terrorism</b>	\$101,000,000
<b>Environmental Liability</b>	\$2,000,000
<b>Cyber &amp; Privacy Liability</b>	\$1,000,000
<b>Flood</b>	
<b>Buildings &amp; Contents</b>	
West Service Center	\$2,477,400
Other locations (per location)	\$1,472,200

*Note: Policy period for Flood Insurance Coverage is 12/8/13-12/8/14.  
Policy period for all other coverages is 11/1/13-10/31/14.*

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**

**SCHEDULE OF UTILITY RATES IN FORCE  
JUNE 30, 2014 (UNAUDITED)**

**RS Residential**

Customer Charge (per delivery point per month)	\$11.83
Summer Season - Energy Charge (per kWh)	0.10604
Winter Season - Energy Charge (per kWh)	0.10313
Transition Season - Energy Charge (per kWh)	0.10133

**SRS Supplemental Residential**

Customer Charge (per delivery point per month)	\$13.43
Summer Season - Energy Charge (per kWh)	0.11198
Winter Season - Energy Charge (per kWh)	0.10908
Transition Season - Energy Charge (per kWh)	0.10727

**General Power Rate Schedules**

GSA1 (Small Commercial - Less than 50 kW)	
Customer Charge - One Phase Meter (per delivery point per month)	\$25.38
Customer Charge - Three Phase Meter (per delivery point per month)	\$30.00
Summer Season - Energy Charge (per kWh)	0.11727
Winter Season - Energy Charge (per kWh)	0.11437
Transition Season - Energy Charge (per kW)	0.11256

**GSA2 (Large Commercial - 51-1,000 kW)**

Customer Charge (per delivery point per month)	\$156.87
Summer Season	
Demand Charge (per delivery point per month)	13.59
Energy Charge (per kWh)	
1st 15,000 kWh Energy	0.11642
All Additional kWh Energy	0.06794
Winter Season	
Demand Charge (per delivery point per month)	12.76
Energy Charge (per kWh)	
1st 15,000 kWh Energy	0.11352
All Additional kWh Energy	0.06794
Transition Season	
Demand Charge (per delivery point per month)	12.76
Energy Charge (per kWh)	
1st 15,000 kWh Energy	0.11171
All Additional kWh Energy	0.06794

**GSA3 (Large Commercial - 1001 – 5000 kW)**

Customer Charge (Per delivery point per month)	\$818.95
Summer Season	
Demand charge (per delivery point per month)	
0 - 1,000 kW	13.39
1,001 - 5,000 kW	15.33
Energy Charge	
All kWh (per kWh)	0.06732

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**

**SCHEDULE OF UTILITY RATES IN FORCE  
JUNE 30, 2014 (UNAUDITED)**

Winter Season

Demand charge (per delivery point per month)	
0 - 1,000 kW	12.55
1,001 - 5,000 kW	14.50
Energy Charge	
All kWh (per kWh)	0.06732

Transition Season

Demand charge (per delivery point per month)	
0 - 1,000 kW	12.55
1,001 - 5,000 kW	14.50
Energy Charge	
All kWh (per kWh)	0.06732

**LS - Outdoor Lighting**

Customer Charge (Per delivery point per month)	\$2.50
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Summer Season

Energy Charge - All kWh	0.07476
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Winter Season

Energy Charge - All kWh	0.07187
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Transition Season

Energy Charge - All kWh	0.07006
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**Time of Day Rate Classes**

TGSA1 (Demand <= 50kW)

Customer Charge (Per delivery point per month)	\$326.79
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Summer Season

On peak kWh Energy	0.12520
Energy Charge (<= 15,000 kWh)	
Off peak kWh Energy	0.11357

Winter Season

On peak kWh Energy	0.11861
Energy Charge (<= 15,000 kWh)	
Off peak kWh Energy	0.11331

Transition Season

On peak kWh Energy	0.00000
Energy Charge (<= 15,000 kWh)	
Off peak kWh Energy	0.11256

TGSA2 (Demand = 51-1,000 kW)

Customer Charge (Per delivery point per month)	\$326.79
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Summer Season

Demand Charge	
Over 50 kW	13.59
Energy Charge	
On peak kWh Energy	0.12435
Off peak kWh Energy	0.11272

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**

**SCHEDULE OF UTILITY RATES IN FORCE  
JUNE 30, 2014 (UNAUDITED)**

Winter Season

Demand Charge	
Over 50 kW	12.76
Energy Charge	
On peak kWh Energy	0.11776
Off peak kWh Energy	0.11246

Transition Season

Demand Charge	
Over 50 kW	12.76
Energy Charge	
On peak kWh Energy	0.00000
Off peak kWh Energy	0.11171

TGSA3 (Demand = 1,001-5,000 kW)

Customer Charge	\$818.95
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Summer Season

Demand Charge	
1st 1,000 kW	13.39
Excess over 1,000	15.33
Energy Charge	
On peak kWh	0.07525
Off-peak kWh	0.06361

Winter Season

Demand Charge	
1st 1,000 kW	12.55
Excess over 1,000	14.50
Energy Charge	
On peak kWh	0.07156
Off-peak kWh	0.06626

Transition Season

Demand Charge	
1st 1,000 kW	12.55
Excess over 1,000	14.50
Energy Charge	
On peak kWh	0.00000
Off-peak kWh	0.06732

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**

**SCHEDULE OF UTILITY RATES IN FORCE  
JUNE 30, 2014 (UNAUDITED)**

**Time Differentiated Hours Use of Demand (TDHUD) (Time of Use Service)**

TDHUD GSA, GSB (Demand = 1,001 - 15,000 kW)

Customer Charge (per delivery point per month) \$2,000.00

Summer Season

On-Peak kW	17.01
Off-Peak Demand Charge	4.24
Energy Charge - On Peak	0.10127
Energy Charge - Off Peak First 425 hours	0.06568
Energy Charge - Off Peak Next 195 hours	0.04653
Energy Charge - Off Peak Additional kWh	0.03026

Winter Season

On-Peak kW	9.73
Off-Peak Demand Charge	4.24
Energy Charge - On Peak	0.06981
Energy Charge - Off Peak First 425 hours	0.06568
Energy Charge - Off Peak Next 195 hours	0.04653
Energy Charge - Off Peak Additional kWh	0.03026

Transition Season

Off-Peak Demand Charge	4.24
Energy Charge - Off Peak First 425 hours	0.06568
Energy Charge - Off Peak Next 195 hours	0.04653
Energy Charge - Off Peak Additional kWh	0.03026

TDHUD GSC (Demand = 15,001 - 25,000 kW)

Customer Charge (per delivery point per month) \$2,000.00

Summer Season

On-Peak kW	17.01
Off-Peak Demand Charge	4.24
Energy Charge - On Peak	0.09758
Energy Charge - Off Peak First 425 hours	0.06300
Energy Charge - Off Peak Next 195 hours	0.04383
Energy Charge - Off Peak Additional kWh	0.02757

Winter Season

On-Peak kW	9.73
Off-Peak Demand Charge	4.24
Energy Charge - On Peak	0.06688
Energy Charge - Off Peak First 425 hours	0.06300
Energy Charge - Off Peak Next 195 hours	0.04383
Energy Charge - Off Peak Additional kWh	0.02757

Transition Season

Off-Peak Demand Charge	4.24
Energy Charge - Off Peak First 425 hours	0.06300
Energy Charge - Off Peak Next 195 hours	0.04383
Energy Charge - Off Peak Additional kWh	0.02757

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**

**SCHEDULE OF UTILITY RATES IN FORCE  
JUNE 30, 2014 (UNAUDITED)**

TDHUD GSD (Demand = > 25,000 kW)	
Customer Charge (per delivery point per month)	\$2,000.00
Summer Season	
On-Peak kW	17.00
Off-Peak Demand Charge	4.23
Energy Charge - On Peak	0.09601
Energy Charge - Off Peak First 425 hours	0.06036
Energy Charge - Off Peak Next 195 hours	0.04119
Energy Charge - Off Peak Additional kWh	0.02493
Winter Season	
On-Peak kW	9.72
Off-Peak Demand Charge	4.23
Energy Charge - On Peak	0.06443
Energy Charge - Off Peak First 425 hours	0.06036
Energy Charge - Off Peak Next 195 hours	0.04119
Energy Charge - Off Peak Additional kWh	0.02493
Transition Season	
Off-Peak Demand Charge	4.23
Energy Charge - Off Peak First 425 hours	0.06036
Energy Charge - Off Peak Next 195 hours	0.04119
Energy Charge - Off Peak Additional kWh	0.02493
TDHUD MSA, MSB (Manufacturing) (Demand = 1,001 - 15,000 kW)	
Customer Charge (per delivery point per month)	\$2,000.00
Summer Season	
On-Peak kW	17.01
Off-Peak Demand Charge	4.24
Energy Charge - On Peak	0.08571
Energy Charge - Off Peak First 425 hours	0.05051
Energy Charge - Off Peak Next 195 hours	0.03136
Energy Charge - Off Peak Additional kWh	0.01510
Winter Season	
On-Peak kW	9.73
Off-Peak Demand Charge	4.24
Energy Charge - On Peak	0.05488
Energy Charge - Off Peak First 425 hours	0.05051
Energy Charge - Off Peak Next 195 hours	0.03136
Energy Charge - Off Peak Additional kWh	0.01510
Transition Season	
Off-Peak Demand Charge	4.24
Energy Charge - Off Peak First 425 hours	0.05051
Energy Charge - Off Peak Next 195 hours	0.03136
Energy Charge - Off Peak Additional kWh	0.01510

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**

**SCHEDULE OF UTILITY RATES IN FORCE  
JUNE 30, 2014 (UNAUDITED)**

TDHUD MSC (Demand = 15,001 - 25,000 kW)	
Customer Charge (per delivery point per month)	\$2,000.00
Summer Season	
On-Peak kW	17.01
Off-Peak Demand Charge	4.24
Energy Charge - On Peak	0.08655
Energy Charge - Off Peak First 425 hours	0.05037
Energy Charge - Off Peak Next 195 hours	0.03122
Energy Charge - Off Peak Additional kWh	0.01496
Winter Season	
On-Peak kW	9.73
Off-Peak Demand Charge	4.24
Energy Charge - On Peak	0.05503
Energy Charge - Off Peak First 425 hours	0.05037
Energy Charge - Off Peak Next 195 hours	0.03122
Energy Charge - Off Peak Additional kWh	0.01496
Transition Season	
Off-Peak Demand Charge	4.24
Energy Charge - Off Peak First 425 hours	0.05037
Energy Charge - Off Peak Next 195 hours	0.03122
Energy Charge - Off Peak Additional kWh	0.01496
TDHUD MSD (Demand = > 25,000 kW)	
Customer Charge (per delivery point per month)	\$2,000.00
Summer Season	
On-Peak kW	17.00
Off-Peak Demand Charge	4.23
Energy Charge - On Peak	0.08482
Energy Charge - Off Peak First 425 hours	0.04868
Energy Charge - Off Peak Next 195 hours	0.02952
Energy Charge - Off Peak Additional kWh	0.01327
Winter Season	
On-Peak kW	9.72
Off-Peak Demand Charge	4.23
Energy Charge - On Peak	0.05314
Energy Charge - Off Peak First 425 hours	0.04868
Energy Charge - Off Peak Next 195 hours	0.02952
Energy Charge - Off Peak Additional kWh	0.01327
Transition Season	
Off-Peak Demand Charge	4.23
Energy Charge - Off Peak First 425 hours	0.04868
Energy Charge - Off Peak Next 195 hours	0.02952
Energy Charge - Off Peak Additional kWh	0.01327

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**

**SCHEDULE OF UTILITY RATES IN FORCE  
JUNE 30, 2014 (UNAUDITED)**

**Seasonal Demand and Energy (SD&E)**

SD&E GSB (Demand = 5,001 - 15,000 kW)

Customer Charge (per delivery point per month) \$2,000.00

Summer Season

Demand - All kW 22.33

Energy - All kWh 0.05293

Winter Season

Demand -All kW 15.84

Energy - All kWh 0.04872

Transition Season

Demand - All kW 10.96

Energy - All kWh 0.04778

SD&E GSC (Demand = 15,001 - 25,000 kW)

Customer Charge (per delivery point per month) \$2,000.00

Summer Season

Demand - All kW Demand 22.33

Energy - All kWh 0.05306

Winter Season

Demand - All kW 15.84

Energy - All kWh 0.04876

Transition Season

Demand - All kW 10.96

Energy - All kWh 0.04786

SD&E GSD (Demand = > 25,000 kW)

Customer Charge (per delivery point per month) \$2,000.00

Summer Season

Demand - All kW 25.98

Energy - All kWh 0.04581

Winter Season

Demand - All kW 19.48

Energy - All kWh 0.04206

Transition Season

Demand - All kW 14.61

Energy - All kWh 0.04123

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**

**SCHEDULE OF UTILITY RATES IN FORCE  
JUNE 30, 2014 (UNAUDITED)**

SD&E MSB (Demand = 5,001 - 15,000 kW)	
Customer Charge (per delivery point per month)	\$2,000.00
Summer Season	
Demand - All kW	19.36
Energy - All kWh	0.04506
Winter Season	
Demand - All kW	12.87
Energy - All kWh	0.04030
Transition Season	
Demand - All kW	7.98
Energy - All kWh	0.03918
SD&E MSC SMSC (Demand = 15,001 - 25,000 kW)	
Customer Charge (per delivery point per month)	\$2,000.00
Summer Season	
Demand - All kW	19.36
Energy - All kWh	0.04475
Winter Season	
Demand - All kW	12.87
Energy - All kWh	0.04028
Transition Season	
Demand - All kW	7.98
Energy - All kWh	0.03921
SD&E MSD (Demand = > 25,000 kW)	
Customer Charge (per delivery point per month)	\$2,000.00
Summer Season	
Demand - All kW	22.32
Energy - All kWh	0.03744
Winter Season	
Demand - All kW	15.83
Energy - All kWh	0.03386
Transition Season	
Demand - All kW	10.95
Energy - All kWh	0.03299

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**

**SCHEDULE OF NUMBER OF CUSTOMERS  
JUNE 30, 2014 (UNAUDITED)**

Residential	332,425
Small Commercial	32,672
Large Commercial and Industrial	6,816
Street and Highway Lighting	<u>550</u>
Total Customers	<u>372,463</u>

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**

**SCHEDULE OF INVESTMENTS  
JUNE 30, 2014 (UNAUDITED)**

<b>Face Value</b>	<b>Description</b>	<b>Fair Value</b>
<i>Securities From Agencies Chartered by Congress</i>		
\$2,805,000	FHLB, 0.16%, Matures 06/10/16	\$2,798,969
\$7,735,000	FHLB, 0.16%, Matures 06/6/16	\$7,728,116
\$22,400,000	FHLB, 0.16%, Matures 06/10/16	\$22,351,840
\$558,000	FHLB, Zero Coupon, Matures 11/12/14	\$557,893
\$559,000	FHLB, Zero Coupon, Matures 11/12/14	\$558,868
\$629,000	FHLB, Zero Coupon, Matures 11/12/14	\$628,880
\$630,000	FHLB, Zero Coupon, Matures 11/12/14	\$629,851
\$1,164,000	FHLB, Zero Coupon, Matures 11/12/14	\$1,163,777
\$1,164,000	FHLB, Zero Coupon, Matures 11/12/14	\$1,163,725
\$584,000	FHLB, Zero Coupon, Matures 11/12/14	\$583,888
\$584,000	FHLB, Zero Coupon, Matures 11/12/14	\$583,862
\$981,000	FHLB, Zero Coupon, Matures 11/12/14	\$980,812
\$982,000	FHLB, Zero Coupon, Matures 11/12/14	\$981,768
\$211,000	FHLB, Zero Coupon, Matures 11/12/14	\$210,960
\$211,000	FHLB, Zero Coupon, Matures 11/12/14	\$210,950
		<u>\$41,134,159</u>

# ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

## SCHEDULE OF LONG-TERM DEBT, PRINCIPAL AND INTEREST SINKING FUND REQUIREMENTS BY FISCAL YEAR JUNE 30, 2014 (UNAUDITED)

YEAR ENDING 5/15/xx	1998 SERIES A CABS		1998 SERIES B		2008 SERIES A		2008 SERIES B	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2015	\$ -	\$ -	5,700,000	993,300	3,170,000	4,378,163	10,540,000	3,427,700
2016	-	-	6,015,000	679,800	3,290,000	4,259,288	11,025,000	2,945,250
2017	4,311,609	7,523,391	6,345,000	348,975	3,415,000	4,135,913	-	2,394,000
2018	4,087,927	7,747,073	-	-	3,545,000	4,007,850	-	2,394,000
2019	3,875,844	7,959,156	-	-	3,685,000	3,866,050	-	2,394,000
2020	-	-	-	-	3,870,000	3,681,800	11,575,000	2,394,000
2021	-	-	-	-	4,060,000	3,488,300	12,155,000	1,815,250
2022	-	-	-	-	4,265,000	3,285,300	12,760,000	1,207,500
2023	-	-	-	-	4,480,000	3,072,050	13,400,000	569,500
2024	-	-	-	-	4,700,000	2,848,050		
2025	-	-	-	-	4,925,000	2,624,800		
2026	-	-	-	-	5,160,000	2,390,863		
2027	-	-	-	-	5,405,000	2,145,763		
2028	-	-	-	-	5,660,000	1,889,025		
2029	-	-	-	-	5,930,000	1,620,175		
2030	-	-	-	-	6,210,000	1,338,500		
2031	-	-	-	-	6,520,000	1,028,000		
2032	-	-	-	-	6,850,000	702,000		
2033	-	-	-	-	7,190,000	359,500		
2034	-	-	-	-	-	-	-	-
2035	-	-	-	-	-	-	-	-
2036	-	-	-	-	-	-	-	-
2037	-	-	-	-	-	-	-	-
2038	-	-	-	-	-	-	-	-
2039	-	-	-	-	-	-	-	-
TOTAL	12,275,380	23,229,620	18,060,000	2,022,075	92,330,000	51,121,390	71,455,000	19,541,200
ACCRETION	16,635,261	(16,635,261)						
DISC/ PREM	-	-	163,743	(163,743)	1,939,223	(1,939,223)	1,776,034	(1,776,034)
GROSS	<u>\$28,910,641</u>	<u>\$6,594,359</u>	<u>\$18,223,743</u>	<u>\$1,858,322</u>	<u>\$94,269,223</u>	<u>\$49,182,167</u>	<u>\$73,231,034</u>	<u>\$17,765,166</u>

# ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

**SCHEDULE OF LONG-TERM DEBT, PRINCIPAL AND INTEREST SINKING FUND REQUIREMENTS BY FISCAL YEAR (continued)**  
**JUNE 30, 2014 (UNAUDITED)**

YEAR ENDING 5/15/xx	2011 SERIES A		2011 SERIES B		2013 SERIES A		2014 SERIES A	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2015	2,675,000	4,330,263	5,440,000	6,334,575	-	2,530,813	2,175,000	4,699,689
2016	2,755,000	4,250,013	5,650,000	6,116,975	-	2,530,813	2,495,000	5,243,650
2017	2,840,000	4,167,363	5,880,000	5,890,975	-	2,530,813	2,565,000	5,168,800
2018	2,945,000	4,060,263	11,345,000	5,655,775	-	2,530,813	2,670,000	5,066,200
2019	3,035,000	3,971,913	11,915,000	5,088,525	-	2,530,813	2,805,000	4,932,700
2020	3,170,000	3,838,663	12,510,000	4,492,775	-	2,530,813	2,915,000	4,820,500
2021	3,265,000	3,743,563	13,075,000	3,929,825	-	2,530,813	3,060,000	4,674,750
2022	3,410,000	3,595,188	13,730,000	3,276,075	-	2,530,813	3,215,000	4,521,750
2023	3,555,000	3,449,863	14,340,000	2,658,225	-	2,530,813	3,375,000	4,361,000
2024	3,735,000	3,272,113	18,045,000	1,941,225	-	2,530,813	3,545,000	4,192,250
2025	3,920,000	3,085,363	10,380,000	1,038,975	\$ 8,245,000	2,530,813	3,720,000	4,015,000
2026	4,115,000	2,889,363	10,900,000	519,975	8,510,000	2,262,850	3,905,000	3,829,000
2027	4,325,000	2,683,613	-	-	12,470,000	1,965,000	4,100,000	3,633,750
2028	4,540,000	2,467,363	-	-	13,090,000	1,341,500	4,310,000	3,428,750
2029	4,765,000	2,240,363	-	-	13,740,000	687,000	4,525,000	3,213,250
2030	5,005,000	2,002,113	-	-	-	-	4,750,000	2,987,000
2031	5,255,000	1,751,863	-	-	-	-	4,985,000	2,749,500
2032	5,490,000	1,516,750	-	-	-	-	5,235,000	2,500,250
2033	5,765,000	1,242,250	-	-	-	-	5,500,000	2,238,500
2034	6,050,000	954,000	-	-	-	-	5,775,000	1,963,500
2035	6,355,000	651,500	-	-	-	-	6,060,000	1,674,750
2036	6,675,000	333,750	-	-	-	-	6,365,000	1,371,750
2037	-	-	-	-	-	-	6,685,000	1,053,500
2038	-	-	-	-	-	-	7,015,000	719,250
2039	-	-	-	-	-	-	7,370,000	368,500
<hr/>								
TOTAL	93,645,000	60,497,496	133,210,000	46,943,900	56,055,000	34,095,293	109,120,000	83,427,539
ACCRETION							-	-
DISC/ PREM	8,148,461	(8,148,461)	15,398,228	(15,398,228)	5,347,489	(5,347,489)	16,450,391	(16,450,391)
<hr/>								
GROSS	<u>\$101,793,461</u>	<u>\$52,349,035</u>	<u>\$148,608,228</u>	<u>\$31,545,672</u>	<u>\$61,402,489</u>	<u>\$28,747,804</u>	<u>\$125,570,391</u>	<u>66,977,148</u>

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**

**SCHEDULE OF LONG-TERM DEBT, PRINCIPAL AND INTEREST SINKING FUND REQUIREMENTS BY FISCAL YEAR (continued)  
JUNE 30, 2014 (UNAUDITED)**

YEAR ENDING 5/15/xx	TOTAL DEBT SERVICE		
	PRINCIPAL	INTEREST	TOTAL
2015	29,700,000	26,694,503	56,394,503
2016	31,230,000	26,025,789	57,255,789
2017	25,356,609	32,160,230	57,516,839
2018	24,592,927	31,461,974	56,054,901
2019	25,315,844	30,743,157	56,059,001
2020	34,040,000	21,758,550	55,798,550
2021	35,615,000	20,182,500	55,797,500
2022	37,380,000	18,416,625	55,796,625
2023	39,150,000	16,641,450	55,791,450
2024	30,025,000	14,784,450	44,809,450
2025	31,190,000	13,294,950	44,484,950
2026	32,590,000	11,892,050	44,482,050
2027	26,300,000	10,428,125	36,728,125
2028	27,600,000	9,126,637	36,726,638
2029	28,960,000	7,760,788	36,720,788
2030	15,965,000	6,327,613	22,292,613
2031	16,760,000	5,529,363	22,289,363
2032	17,575,000	4,719,000	22,294,000
2033	18,455,000	3,840,250	22,295,250
2034	11,825,000	2,917,500	14,742,500
2035	12,415,000	2,326,250	14,741,250
2036	13,040,000	1,705,500	14,745,500
2037	6,685,000	1,053,500	7,738,500
2038	7,015,000	719,250	7,734,250
2039	7,370,000	368,500	7,738,500
TOTAL	586,150,380	320,878,513	907,028,893
ACCRETION	16,635,261	(16,635,261)	-
DISC/ PREM	49,223,569	(49,223,569)	-
GROSS	<u>\$ 652,009,210</u>	<u>\$ 255,019,683</u>	<u>\$ 907,028,893</u>

**ELECTRIC POWER BOARD OF THE METROPOLITAN GOVERNMENT  
OF NASHVILLE AND DAVIDSON COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
JUNE 30, 2014 (UNAUDITED)**

<b>Federal Grantor / Pass-Through Grantor / Cluster Title</b>	<b>CFDA Number</b>	<b>Contract Number</b>	<b>Accrued Balance June 30, 2013</b>	<b>Cash Receipts</b>	<b>Expenditures</b>	<b>Adjustments</b>	<b>Accrued Balance June 30, 2014</b>
U.S Department of Homeland Security/ TN Emergency Management Agency/ Disaster Grants- Public Assistance Total U.S. Department of Homeland Security - Flood	97.036	N/A	\$ 2,230,649	(\$2,065,647)	\$ -	\$114,446	** \$279,448
U.S Department of Homeland Security/ TN Emergency Management Agency/ Disaster Grants- Public Assistance Total U.S. Department of Homeland Security	97.036	N/A	\$ 367,155	\$ -	\$ -	\$ -	\$ 367,155

\* Amount reflects adjustments for estimated disallowed costs and insurance allocation.

# Amount reflects adjustments for additional reimbursements awarded on appeals.

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2014**

1. The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Electric Power Board of the Metropolitan Government of Nashville and Davidson County (the "Board") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.
2. The grant revenue amounts received are subject to audit and adjustment. If any expenditures are disallowed by the grantor agency as a result of such an audit, any claim for reimbursement to the grantor agency would become a liability of the Board. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal laws and regulations.



**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

To the Electric Power Board of the Metropolitan  
Government of Nashville and Davidson County  
Nashville, Tennessee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Electric Power Board of the Metropolitan Government of Nashville and Davidson County (the "Electric Power Board"), a component unit of the Metropolitan Government of Nashville and Davidson County, Tennessee, which comprise the statement of net position as of June 30, 2014, and the related statements of revenues, expenses, and changes in net position and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 16, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Electric Power Board's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Electric Power Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Electric Power Board's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Electric Power Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*PriceWaterhouseCoopers LLP*

Nashville, Tennessee  
October 16, 2014

## Schedule of Findings and Responses

### Update on Finding for Fiscal 2013

#### 13-1

The design and operating effectiveness of the Electric Power Board's controls, related to the depreciation of general assets that are fully depreciated, were not effective in the preparation of financial statements.

#### Background

The Electric Power Board's fixed asset system calculates depreciation expense by applying a straight-line percentage rate to the cost by asset class including utility plant and other property and equipment. These rates result in depreciation of the related assets over their estimated useful lives ranging from seven to fifty years. A system limitation exists whereby the depreciation expense continues to be calculated and reported even if an asset class has been fully depreciated. This can result in accumulated depreciation exceeding the cost of the asset class and thus report a negative net book value. In order to prevent such a result, a detailed review of the depreciation calculation and a manual recalculation is required to ensure that a negative net book value does not result in the general ledger. During fiscal 2013 errors were identified whereby certain asset classes within office furniture and equipment had accumulated depreciation in excess of cost resulting in a negative net book value. The impact of this error was approximately \$8 million, the majority of which related to fiscal years prior to 2013. As evidenced by this error, the detailed review control of the depreciation calculation did not operate as intended.

#### Management Response

During the year ended June 30, 2014, management remediated this finding through the acquisition and implementation of a fixed asset system that is integrated with the general ledger, and that is designed to automatically compute depreciation in such a manner that the assets cannot be over depreciated. The assets and accumulated depreciation in the old system were balanced to the new system during the conversion. The new fixed asset system captures the asset cost and calculates the appropriate depreciation each period until the asset is fully depreciated. Management reconciles the asset accounts monthly to this system. The results of the activity captured in the new fixed asset system (including the accumulated depreciation) is reviewed and approved by the appropriate level of management each month.